

**THE
20TH CENTURY BUSINESS BOOK**

BUSINESS BUILDERS



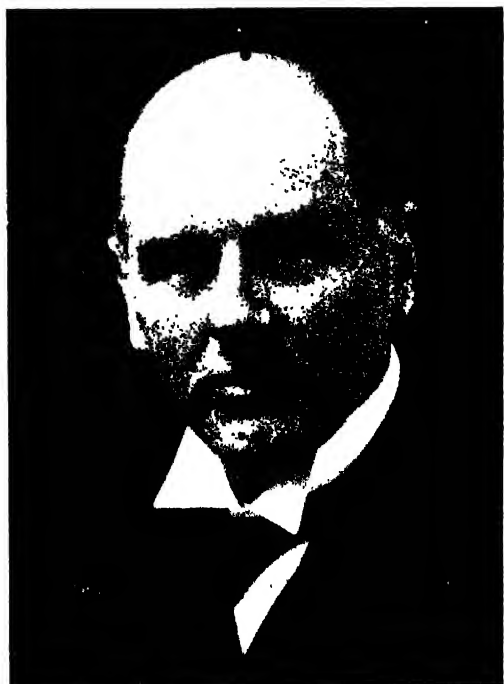
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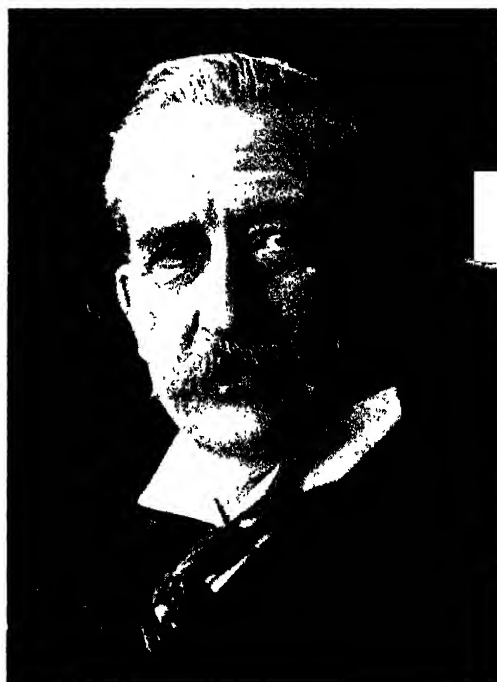
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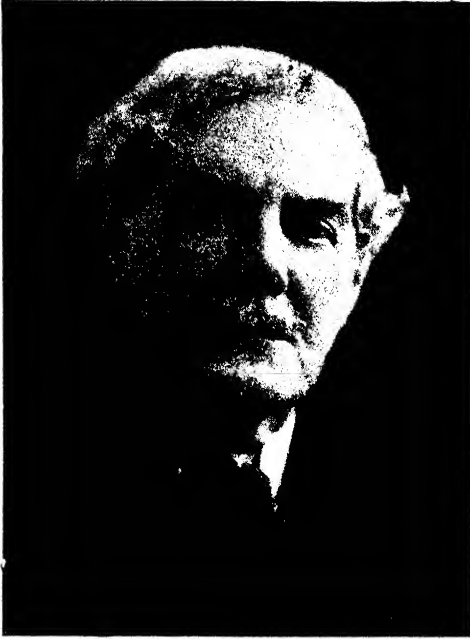
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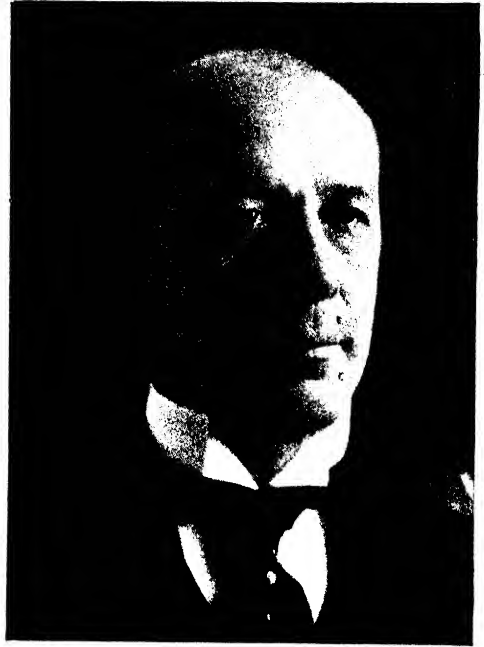
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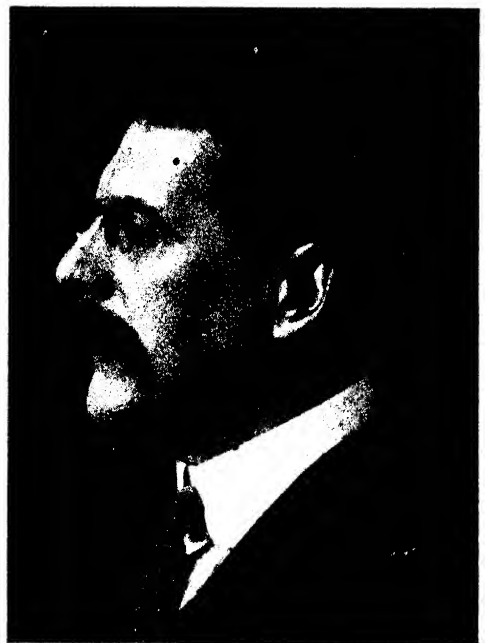
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THE 20TH CENTURY BUSINESS BOOK

**A PRACTICAL GUIDE
TO EFFICIENCY : COMPRISING
EVERY BRANCH OF BUSINESS**

EDITED BY

WALTER GRIERSON

ASSISTED BY EXPERT CONTRIBUTORS

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CONTENTS

CHAPTER I

| | |
|--|-----------|
| HOW SUCCESSFUL BUSINESSES ARE BUILT. By SIR FRANK NEWNES, BART. | PAGE 1 |
| Introductory Remarks—First Beginnings—Business Planning—The New Era—Financial Assistance—Opportunities—Amalgamations and the Future—Views of Mr. Walter Leaf—Fundamentals. | |

CHAPTER II

| | |
|---|---|
| COMMERCIAL MANAGEMENT. By the EDITOR | 9 |
| Some General Principles—Things that Matter—Training and Experience—Mental Equipment—Business Policies—Problems of Management—Finance—Examining Financial Accounts—Controlling Overhead Charges—Staff Personnel Problems—Agreements—Managing the Selling Side—Changing Conditions and New Methods—Control of Buying—Secrets of Successful Buying—Practical Points in Commercial Law—Contracts Agreements, etc. | |

CHAPTER III

| | |
|---|----|
| BRITISH EXPORT TRADE | 39 |
| Survey of Export Markets—The Balfour Committee Report—Openings for New and Increased Business—Various Modern Selling Methods Explained—The Different Kinds of Agencies—Direct Selling—Export Merchants and Shipping Houses—The Routine of Export Trade Explained—The Finance of Foreign Trade—Consignment Accounts. | |

CHAPTER IV

| | |
|---|----|
| THE DUTIES OF A SECRETARY. By HORACE COLE, F.C.I.S. | 69 |
| Qualification of the Efficient Secretary—Duties and Responsibilities—Secretaries of Limited Companies—Company Meetings—Share and other Registers—Transfers and Share Certificates—Dividends—Annual Returns—Private Companies—Financial Duties—Income Tax Procedure. | |

CHAPTER V

| | |
|--|----|
| BANKS AND BANKING. By WILLIAM F. SPALDING. | 88 |
| The British Banking System—The Business of a Bank—Lender and Borrower—How to Deal with a Bank—Drawing of Cheques—Forgery—Crossing of Cheques—Various Endorsements—Loans and Overdrafts—The Pass Book—Miscellaneous Services—The Bankers' Clearing House. | |

CHAPTER VI

| | |
|--|-----|
| THE MONEY MARKET. By H. S. OAKLEY | 107 |
| What the Money Market is—The "Price" of Money—Operations in the Money Market—How Business is Transacted—Banks, Discount Houses and Bill Brokers—The Money Broker—Accepting and Issuing Houses—The Bank Rate—The Bank of England Weekly Return. | |

CHAPTER VII

| | |
|--|-----|
| INTERNATIONAL EXCHANGE, OR THE FINANCIAL MACHINERY OF FOREIGN TRADE. By WILLIAM F. SPALDING | 117 |
| The "Mystery" of Foreign Exchange—Trading in Money—Methods of Remitting Money to Other Countries—The Elementary Principles of Exchange—The Part Banks Play—Helping the Importer and Exporter—Meaning of "Spot" and "Forward" Rates—What Influences Exchange Rates—Eliminating Risks—Documentary Credits—The Discount Market. | |

CHAPTER VIII

| | PAGE |
|--|------|
| THE STOCK EXCHANGE. By H. S. OAKLEY | 126 |
| The London Stock Exchange—Rules and Regulations—The Functions of Brokers and Jobbers—Rates of Commission—Provincial Stock Exchanges—Outside Brokers—Glossary of Terms Used—How Prices are Quoted—Underwriting—Different Classes of Stocks and Shares—Lists of Various Kinds of Securities. | |

CHAPTER IX

| | |
|---|-----|
| NEW METHODS IN INDUSTRY. By SIR CHARLES W. MACARA, BART. | 142 |
| Post-War Problems—Altered Conditions—The Lancashire Cotton Trade—Comparative Facts and Figures—Principles of Control—Technical Efficiency—A Look Ahead—Some Puzzles Explained—The Future. | |

CHAPTER X

| | |
|--|-----|
| ORGANISATION | 149 |
| Trade Organisations and Federations—The Collection of Statistical and Other Information—Research Departments—Organising a Business—The Objects of Organisation—Organisation of Finance—Monthly Statistical Returns—Organisation of Accounts—The Art of Analysing Figures—Book-Keeping Organisation—Self-Balancing Ledgers, etc.—The Art of Using Figures—The Significance of Percentages—Interim Trading and Other Accounts—Graphs, Charts and Card Indexes—Office Organisation—The Handling of Correspondence, etc.—Mechanical Filing Devices—Calculating and other Machines. | |

CHAPTER XI

| | |
|--|-----|
| FACTORY ORGANISATION. By W. HOWARD HAZELL. | 190 |
| Efficiency and its Value—Factory Sites and Buildings—Power, Lighting and Heating—Fire Prevention and Insurance—Planning the Factory—Planning Work—Organisation—Other Machinery Questions—Depreciation—Factory Management—Overhead Expenses—Business Policy—Employees—Changing Methods. | |

CHAPTER XII

| | |
|---|-----|
| COST ACCOUNTS AND MANUFACTURING DEPARTMENTAL ACCOUNTS | 209 |
| The Nature of Departmental Accounts Exemplified—The Nature of Cost Accounts and Cost Sheets—How they Differ—How Applied to Various Businesses—The Treatment of Establishment Charges—Examples of Various Output Cost Sheets—Hourly Machine Rates and how they are Fixed—Some Difficult Cases of Costing—Running or Working Costs. | |

CHAPTER XIII

| | |
|---|-----|
| THE BUSINESS METHODS IN LARGE-SCALE PRODUCTION. By SIR HERBERT AUSTIN | 237 |
| Sales Organisation—Planning Work—The Time Basis. | |

CHAPTER XIV

| | |
|---|-----|
| THE IMPORT TRADE | 247 |
| The Balance of Trade—What "Invisible Exports" are—Classification of Imports—Two Vital Questions—The Empire Marketing Board—The Imperial Economic Committee—Duties on Imports—Safeguarding of Industries—Imperial Preference—Methods of the Import Trade—Classes of Importers—Associations of Producers—The Financial Side—Salerooms and Markets—Mincing Lane—Import Procedure and Documents—Customs Requirements. | |

FORMS, CHARTS AND ILLUSTRATIONS

| | | |
|---|--------------------|----------------------------------|
| BUSINESS BUILDERS | | <i>Frontispiece</i> |
| LORD ABERCONWAY. | SIR S. M. SKINNER. | |
| LORD ASHFIELD. | SIR V. CAILLARD. | |
| The Late SIR G. A. WILLS, BART. | REGINALD MCKENNA. | |
| SIR MAX MUSPRATT, BART. | D'ARCY COOPER. | |
| MAP OF EUROPE | | <i>between pages 8 and 9</i> |
| MAP OF THE BRITISH ISLES (INDUSTRIAL) | " " | <i>16 and 17</i> |
| MAP OF NORTH AMERICA | " " | <i>40 and 41</i> |
| GRAPHS SHOWING THE SHARE OF CERTAIN DOMINIONS IN BRITAIN'S EXPORT TRADE | " " | <i>48 and 49</i> |
| MAP OF AUSTRALIA AND NEW ZEALAND | " " | <i>56 and 57</i> |
| LLOYD'S INSURANCE POLICY | " " | <i>58 and 59</i> |
| MAP OF INDIA | " " | <i>64 and 65</i> |
| INSTITUTE OF CHARTERED ACCOUNTANTS AND INSTI- TUTE OF SECRETARIES | " " | <i>68 and 69</i> |
| SUMMARY OF SHARE CAPITAL | " " | <i>72 and 73</i> |
| PROTECTOGRAPH FOR CHEQUES | " " | <i>74 and 75</i> |
| REGISTER OF DIRECTORS | " " | <i>76 and 77</i> |
| BROKER'S BALANCE TICKET | | <i>page 79</i> |
| BALANCE CERTIFICATE BOOK AND DIVIDEND LIST | | <i>page 80</i> |
| DIVIDEND WARRANT | | <i>between pages 82 and 83</i> |
| BANK OF ENGLAND | " " | <i>88 and 89</i> |
| CROSSED CHEQUE | | <i>page 94</i> |
| LONDON MONEY MARKET | | <i>between pages 106 and 107</i> |
| PARIS AND BERLIN BOURSES. NEW YORK: THE BUSINESS CENTRE | " " | <i>120 and 121</i> |
| THE STOCK EXCHANGE, LONDON | " " | <i>128 and 129</i> |
| A LANCASHIRE COTTON MILL | " " | <i>144 and 145</i> |
| EXAMPLES OF MODERN TELEPHONES | " " | <i>152 and 153</i> |
| SALES CHARTS: NEWSPAPER AND MAGAZINE | " " | <i>172 and 173</i> |
| TWO EXAMPLES OF THE USES OF GRAPHS | | <i>page 173</i> |
| DIAGRAM SHOWING THE VARIOUS KINDS OF PUBLICITY AND THEIR RELATION TO NET SALES | | <i>between pages 174 and 175</i> |
| ADVERTISEMENT COPY CHART | | <i>page 174</i> |
| ADVERTISEMENT TEST CARD | | <i>" 175</i> |
| ADVERTISEMENT CHECKING JOURNAL | | <i>" 176</i> |
| CARD INDEX | | <i>between pages 176 and 177</i> |
| STOCK CHART | | <i>page 178</i> |

| | |
|--|----------------------------------|
| FILING CABINETS AND FILING BOOK | <i>between pages 182 and 183</i> |
| CALCULATING MACHINE, STAMPING MACHINE, DICTA- PHONE AND OTHER AIDS TO OFFICE WORK | <i>" " 184 and 185</i> |
| LOOSE-LEAF LEDGERS AND ADDRESSING MACHINES | <i>" " 188 and 189</i> |
| MODERN METHODS OF FACTORY LIGHTING | <i>" " 192 and 193</i> |
| FACTORY VENTILATION AND STORAGE | <i>" " 194 and 195</i> |
| TIME RECORDING | <i>" " 204 and 205</i> |
| TYPICAL COST SHEETS | <i>pages 225, 227, 228</i> |
| WORK DOCKETS | <i>page 229</i> |
| SPINNING RETURN | <i>" 235</i> |
| MASS PRODUCTION IN A BRITISH MOTOR-CAR FACTORY | <i>between pages 236 and 237</i> |
| PROGRESS CHART IN MOTOR-CAR WORKS | <i>page 239</i> |
| WORKS LAY-OUT IN MOTOR-CAR WORKS | <i>" 240</i> |
| INSPECTION NOTE IN MOTOR-CAR WORKS | <i>" 241</i> |
| ORDER FORM IN MOTOR-CAR WORKS | <i>" 242</i> |
| WORK LISTS SHOWING PARTS OF A MOTOR-CAR | <i>" 246</i> |
| LONDON BRIDGE AND CUSTOM HOUSE | <i>between pages 246 and 247</i> |
| MAP OF SOUTH AMERICA | <i>" " 256 and 257</i> |
| FORM OF ENTRY FOR FREE IMPORTS | <i>page 263</i> |
| DELIVERY ORDER | <i>" 264</i> |
| ENTRY FOR WAREHOUSING | <i>" 265</i> |
| DOCK WARRANT | <i>" 267</i> |
| FORM OF ENTRY FOR GOODS LIABLE TO AD VALOREM DUTIES | <i>between pages 268 and 269</i> |
| CERTIFICATE OF ORIGIN | <i>page 269</i> |
| IMPORTS AND EXPORTS: SUMMARY | <i>pages 271 and 272</i> |

CHAPTER I

HOW SUCCESSFUL BUSINESSES ARE BUILT

SIR FRANK NEWNES, BART.

Introductory Remarks—First Beginnings—Business Planning—The New Era—Financial Assistance—Opportunities at the Present Day—Amalgamations and the Future—Views of Mr. Walter Leaf—Fundamentals.

AMONG the most fascinating chapters in the romance of business there is none more full of human interest than the life-story of many of the outstanding men who have created some great businesses. My purpose is not to retell these romances here, but to indicate in what manner some great industrial concerns have been gradually built up from small beginnings. I shall try to exemplify, from a few selected instances, the fundamental basis and the guiding principles that are common to nearly all. Finally, I shall say a word on the great changes and the newer developments that have taken place within the last few years.

No business concern of any standing and importance has become what it is by reason of haphazard happenings. A bright idea, or a sudden inspiration, has often been the genesis of what has become a big business undertaking, but between the genesis and the ultimate realisation we usually find there lies the story of the life-work, not of one mind, but of several minds.

If we take at random only half-a-dozen names out of many well-known businesses that have arisen from small beginnings to big concerns, we find that the life-story of their founders is practically the same in

each case, Sir John Barker, Sir Joseph Lyons, Sir George Newnes, Lord Northcliffe, and Lord Leverhulme.

Their business lives may be summed up in a few words—a definite purpose, vital interest, restless activity, enthusiasm, determination, and staying power. One may be splendid in ideas, but, devoid of those other qualities, and the capacity for seeing things done, nothing results. It will be found without exception that the keynote of all these men was initiative, vital interest, and determination.

First Beginnings

Let me take first the case of my father, the pioneer of popular periodicals and magazine literature. The available capital with which he started was trifling—less than five hundred pounds. To-day the Company he founded has a capital of £800,000. His success was perhaps the more remarkable because he was not a trained journalist, and, as a matter of fact, began life in a wholesale draper's establishment and then became a commercial traveller. When he started "Tit-Bits" he knew nothing about the technical side of printing and publishing, and his great success was due, not only to the fact that he was always evolving new and fresh

ideas, but was the result of sustained concentration and continuity of purpose.

There was nothing in the early days connected with my father's business that he did not think worth his personal attention. He had an amazing capacity for taking pains; much depends in all new ventures upon how things are done; he would seize the psychological moment; he would launch new things in the most attractive form; he would anticipate others where he could; he believed in the popular price. As the business grew, his chief concern was the problem of finding efficient helpers, men who were not afraid to take on responsibility. One of the maxims of the late Sir Joseph Lyons was, "Let your employees rise with you." It is humanly impossible for any one person to build up and control a business of even moderate dimensions without the able assistance and co-operation of other men. There is a limit to the amount of work any one man can do and his success ultimately depends largely on his choice of assistants.

The Company founded by Sir Joseph Lyons and Mr. Gluckstein has to-day a capital of nearly £6,000,000, and employs 30,000 people. The fundamental idea here was simply this. Sir Joseph Lyons had the gift of anticipating public needs, and he had the business capacity to put his ideas into a practical shape. He wrote: "The turning-point of my life came when I went into a dirty little London restaurant one day, ordered the least uninviting dish, and sat down to eat. The waiter was a long time bringing my food, and when he brought it, it was cold, badly served on a dirty plate, and placed on an equally dirty tablecloth.

"Maybe I was in a somewhat critical mood that day, but as I sat in that little restaurant I began to think how difficult it was for the average person to get a small meal

served up in a clean, appetising manner. The more I thought about the matter, the more I became convinced that it was a universal want. I went off to my friend, Mr. Montagu Gluckstein, who, even in those far-off days, was a great organiser, and we formed a partnership and a plan of campaign.

"An exhibition at Newcastle-on-Tyne was in the process of organisation, and we got the refreshment contract. We engaged the first Blue Hungarian Band that ever came to England, at £100 a week, during the run of the exhibition, and, although people thought we were raving mad, we did not forget our own formula—bright and pleasant surroundings—and felt that even the profits on a twopenny cup of tea, and a penny plate of appetising bread and butter, would be sufficient if we could only do a large business."

Business Planning

That seems easy. But there is more here than meets the eye. A great deal of estimating, budgeting, and business planning was involved. "It was a question of facts and figures. We saw, for example, a certain article costing 1½d. being sold for 6d. Could we, after allowing for cost of plant and working expenses, sell it at 4d.? More organisation and planning; then we found we could. Then we went farther. As we made our profit we increased our quality. We took smaller profits, doubled the turnover, and so we grew."

Sir Joseph Lyons had the vision, but, as he admitted, he was assisted by two of the cleverest organisers in the kingdom. No haphazard methods. "Whenever a scheme was brought to us we put our heads together to consider it and look out for 'the nigger on the fence'—that is to say, we looked for the weak spot. It is a puzzle to find the 'nigger.' When you have got him you must either

discard the scheme or get rid of the nigger."

The same thing applies to other businesses, applies to them at every turn of the road. The essentials of the rise of this business from small beginnings to that which became the biggest catering concern in the world were, said its founder himself: "finding our groove; concentration; keeping faith with the public; buying in the right markets; choosing the right employees; letting our employees rise with us." It is interesting to know that he laid stress on the last two. The guiding principles of this Company were to discover its public, to stick to it, study its requirements, and cater for its wants to the best of their ability. In a word, concentration and continuity. That policy led to the formation of allied concerns which now control some of the biggest and best known cafés and hotels in the world.

It must not be imagined that it was always an easy road; it never is; there are usually mistakes and setbacks. The overcoming of difficulties is another trait of successful men. Sir Joseph Lyons and his associates found a nasty "nigger on the fence" after they had undertaken the construction of the Trocadero, which to-day every Londoner knows as a prosperous business. The "nigger" was only appeased after £100,000 was found to make good a miscalculation of costs.

Sir John Barker

Among the biggest Stores in London is that of John Barker & Co., Ltd., with a capital of about £2,300,000. Sir John Barker said, "One need not combine all the talents in order to be successful"—almost a repetition of Sir Joseph Lyons' statement. He was also fond of reminding his staff that "there is no such thing as luck in business." One may have a stroke of luck or a lucky spell; but an occasional stroke of luck does not

come along every week or every month.

The fundamental basis on which Sir John Barker began was ambition. He was the son of a Maidstone brewer. He had no leaning towards his father's business, and the Mecca of his ambition was London, because "I looked on London as the world itself." He apprenticed himself to a provincial drapery warehouse; in time he transferred himself to London.

He had little money of his own and launched out for himself on borrowed capital. He set out with the determined purpose of supplying the hundred and one requirements of a well-to-do locality at the smallest margin of profit, instead of what were called prohibitive West End prices. "The public found they could rely on my word and all the rest followed as a matter of course."

A modest remark this, "as a matter of course." A business consisting of two small shops does not grow into such a gigantic emporium as "Barker's" as a matter of course. Note the foresight and planning at the outset. He had determined to introduce popular prices, and he chose to establish himself in a high-class residential district. Naturally, the first thing he had to face was "the many difficulties and prejudices that had to be overcome," just because he deliberately chose the neighbourhood he did. And the great business he thus founded on such a solid basis has continued to grow and expand under the able control of Sir Sydney Skinner, who also started life in a small way and has worked his way up to his present great position in the business world.

The New Era

To-day is the era of big business, combines, and amalgamations, so big that it is impossible for any one man to exercise personal control in all branches. The day of the all-round manager is disappearing. This is the

opportunity for the ambitious young man, for whom there is perhaps more prospect to-day in filling highly paid posts in a big business than in new ventures; lucrative positions which demand management ability, initiative, and the power to direct and control. These positions are always available for the right man; the trouble is to find him.

I would not say that the day for enterprising brains to start fresh businesses, that may conceivably grow into big ones, has gone, that the opportunities are no longer there, that the great developments of Joint Stock Companies and the new fashion of combines, amalgamations, and the formation of trusts has made it impossible for new businesses to be started with any hope of great success.

That would not be true. The lack of one thing gave Sir Joseph Lyons his chance; the lack of popular literature gave Sir George Newnes his chance; the lack of a halfpenny newspaper gave Lord Northcliffe his chance; these opportunities are not likely to occur again, but others will, and no doubt, here and there throughout the country, there are young ambitious men starting small businesses that one day will blossom into great enterprises. I should remind them of the advice of Henry Ford: "The young man with ambition ought to take a long look ahead and leave an ample margin of time for things to happen."

The huge business of Courtaulds was started in a modest way only, comparatively speaking, a few years ago. What is now the Crittall Manufacturing Company, Ltd. (with a capital of about £1,000,000), was started by a Braintree working blacksmith whose first staff consisted of two men and a boy. The men he is looking for to-day, Mr. Crittall has just said, are the £1,500 a year men. We have also seen within recent years the rise of several motor businesses from small beginnings to huge enter-

prises. Sir W. R. Morris, the motor manufacturer of Cowley and Oxford, began his business career as an apprentice and then started to make bicycles for friends. Soon he was building and selling the Morris "push" bicycle. In order that he might exhibit at a motor bicycle exhibition in 1904 he worked for four days and four nights without sleep so as to get his bicycle finished in time.

Financial Assistance

In one respect, the ambitious young man of to-day, fruitful of practical ideas and with the capacity for business building, has a decided advantage over the same kind of young man of a previous generation. He will experience probably less difficulty over the question of finance.

Many must have read with interest some remarks made in January 1927 by Mr. Beaumont Pease, Chairman of Lloyd's Bank, regarding the assistance granted by Banks to the trading community. The advances made by that Bank, he stated, represented half the total amount of the Bank's assets. It is a mistake to think that the Banks do not cater for the smaller borrower. As Mr. Pease said, "It is the 'small man' with whom we are chiefly concerned, and it is 'the small man' who figures most prominently in all aspects of our business." It appears from Mr. Pease's statement that, dealing with the year 1926, no less than 84 per cent. of the borrowers of this one Bank have average overdrafts of no more than £614, accounting for 43 per cent. of the total overdrafts. The total overdrafts of firms in the retail trade amounted in 1926 to no less than £13,000,000, spread over 21,668 borrowers, which gives an average overdraft of about £610.

Few people probably realise to what extent the big Banks assist traders. For example, Lloyd's Bank in the year I have mentioned advanced, as I have said, over £13,000,000 to the retail trade; and the overdrafts

represented by the Iron and Steel Trades amounted to over £3,000,000; to the Coal Trade nearly £4,000,000; to the Chemical Trade nearly £1,000,000; to the Paper, Printing and Publishing Trades, £1,800,000; to Agriculture, £18,500,000; and to personal and professional people, £43,500,000—in this last case the average overdraft was £545.

Taking the total number of all overdrawn accounts of this one Bank, the average overdraft was £1,200. These figures, as Mr. Pease says, effectively answer the statement sometimes made that banks do not cater for the smaller borrower. Such, then, is one advantage offered to the young aspiring business geniuses of to-day. Another is the facility with which money can be raised by forming prosperous businesses into private or public limited liability companies, a few instances of which I have mentioned.

During the last five years (1921–26) the *average* number of new companies registered with a capital between £100,000 and £500,000 is 199, and new companies registered over the same period having a capital of over £500,000 *averaged* 34.

Opportunities of To-day

But, undoubtedly, the opportunities for successful new ventures become fewer. For most ambitious young men the opportunities now lie elsewhere. The last twenty years have witnessed a revolution in the size and nature of industrial concerns, and the tendency is to even greater combinations. The demand for men of great organising powers, of administrative ability, and of managerial capacity is more than it ever was. This applies to every department of a great enterprise, whether supervision or administration, whether production or selling, finance or accountancy, whether technical, commercial, or secretarial. The specialised kind of work must be entrusted

to men with specialised knowledge. The big business of to-day is built up, not so much by the enterprise and ability of one man, but by several individuals working in unison, each an expert in his own domain. This demands no less from these individual men than it would if their energies were devoted to smaller businesses of their own creating.

Great Businesses and Great Positions

The great business of Lever Bros., Ltd., was founded by one man, but in these days it has a large Board of Directors, and an army of highly paid men who have scope for all their energies as managers and departmental managers, and technical advisers. So it is also with Imperial Chemical Industries, Ltd., with a capital of £49,000,000; with the Dunlop Rubber Company, Ltd., with a capital of about £20,000,000; the General Electric Co., Ltd., with a capital of £9,000,000; Courtaulds with £20,000,000; Fine Cotton Spinners, Ltd., £11,000,000; Rylands & Sons, Ltd., £3,500,000; Guest, Keen & Nettlefolds, Ltd., £13,000,000; Vickers, Ltd., £15,000,000; Harrod's Stores, £10,000,000, and so on, in practically every kind of industry.

There are posts in many of these huge undertakings that attract men of the highest attainments; the political world and the professional world have been forsaken by many eminent men for the richer rewards of business life. The Board of Directors and the management of many business concerns may be compared to a political Cabinet of Ministers, each in charge of his own particular department.

The business with a small capital behind it is, in the majority of industries, hopelessly out of date when it comes into competition with large concerns which are the feature of the day. Great and efficiently managed combines are so circumstanced that they are able to supply

public needs more cheaply than can the business run by individuals whose activities are restricted. The idea behind combinations of firms engaged in the same kind, or similar kinds, of business is more than the elimination of competition; it is co-operation and control. Great combinations cut out waste, effect economies, and promote efficiency; thus the productive power of industry is greatly increased.

Amalgamation and the Future

We see these combinations on every hand; even the great Banks have combined, and to-day we have the "Big Five." I cannot do better than quote the opinion of the Chairman of one of the "Big Five" on the subject of business amalgamations and the part they are likely to play in the future development of British trade. Speaking at one of the annual meetings of the Westminster Bank, Ltd., the Chairman, the late Mr. Walter Leaf, said:

"You will, perhaps, allow me to sketch out what, in my opinion, are the lines on which industry is destined to develop in the near future. It is by these that we should judge the rightness of any particular step, approving it if it coincides with the general movement which is shaping the economic future.

"It would seem, so far as I am able to judge, that the spirit of the age is developing industry on the following main lines. First, there is in progress a rapid broadening of the area of capital; the joint-stock system is quite rapidly breaking up the ownership of capital and passing it on in small parcels to the little shareholder. As a consequence of this, the owners of capital delegate the control of their business to professional managers, who are paid chiefly by salaries. Next, there is a marked tendency to amalgamation of businesses on the largest possible scale.

Amalgamation, but not Monopoly

"Finally, there is a growing recognition of the fact that this amalgamation must not proceed to the point where it becomes a monopoly or a menace either to the State or the worker, and this consideration brings with it the definite reservation by the State of such a controlling influence as will provide that the public interests of all are duly observed, and that there shall be nothing in the nature of exploitation in any private interest. The future organisation of industry will be ruled by the two main principles—that production must be upon the largest possible scale, but that it must be vitalised, by rivalry and competition; and to this end the State will intervene to see there is no danger of monopoly or operation in the interest of one particular class.

"Let me illustrate this by the case of our own industry—namely, banking. You know that it is not long since bank amalgamations were proceeding at a rapidly accelerating pace, till it seemed likely that the whole banking business of the country might be collected into a few hands. The State thereupon intervened, and laid a veto upon any more amalgamations by the big banks; that veto is still in force. But the control of the State goes even further than this.

"The banks have been deprived by the State of the control of currency and the power of creating credit involved in it. That, which was once considered to be the very essence of banking, now belongs to the Treasury. And the control of the rate of interest, by which all deflation or inflation is managed, has equally been confided to the Bank of England, and in this the joint-stock banks have no voice whatever. Beyond this, the Bank of England, acting with, if not directly on behalf of, the Government, exercises a very real control over the policy of the joint-stock banks, as was made clear enough very recently in the enforcement of the embargo

on the issue of foreign loans. And, generally, the banks recognise it as their duty to support the policy of the Bank of England. They are thus for all practical purposes as much under control as if they were nationalised, while at the same time, instead of being governed by a bureaucracy and red tape, they are stimulated by the keenest of competition among themselves, and by a professional pride in the standard of efficiency thus set up and maintained.

"Moreover, their management is practically democratic. The holdings of shares in the Big Five banks are, as you doubtless know, so numerous that each holding represents a very small capital. There are in effect about 275,000 shareholders among the five, owning an aggregate capital of over £60,000,000, giving an average holding of under £220; the subdivision of capital can hardly go much further. Moreover, the executive control is entirely in the hands of the staff. The directors, to whom the duty of supervision is entrusted, are themselves the paid servants of the shareholders.

Similar Policy in Other Industries

"Another rapidly growing and important industry which is now in course of reorganisation on very similar lines is that of electric supply. So far as London is concerned the lines were laid down some forty years ago with the idea of establishing active competition. London was divided up into a number of small areas, some of which were handed over to municipalities, others to private companies; in the latter case provision was always made for two competing companies in each area. The system worked fairly well at first, but as the supply developed the limitations of the small companies became intolerable; amalgamation was forbidden, and the supply of London was seriously threatened.

"Legislative provision has now

(January 1927) been made by which the London area is divided between large groups of companies and local authorities associated in a manner which will enable electric energy to be produced on the largest scale, while the charges of the companies are strictly limited, and the harmonious working of the whole is entrusted to a joint electricity authority working under the ultimate control of the Electricity Commissioners, a public body. The new Electricity Act which has just been passed is, in intention at least, an extension of the same general principle to the whole country. In the case of the railways, I need hardly remind you that the same policy of amalgamation in large groups under the control of a body of Commissioners has been carried through by legislation.

"This appears to me to be the constructive tendency which is shaping the future of industry. It involves a recognition of the fundamental fact that, in order to induce men to put forth their full energy in production, it is necessary to foster the spirit of rivalry, which is only stifled by official monopoly. And at the same time it recognises a sentiment which has imposed itself upon the public conscience, a sentiment which is too powerful to be ignored. This is the conviction that those who are in control of great businesses must operate with due regard for the common weal, and not only for their private profit; that the management of great aggregations of industrial power is not merely a private, but a public trust."

Fundamentals

What the ambitious young men of to-day have to study is how to fit themselves for the higher posts of responsibility in these huge enterprises. The essentials are just those essentials to be found in the conduct of smaller concerns; the specialised knowledge needed is just the same in

kind in either case. The fundamental subjects are just those which are dealt with in the work to which I contribute these few observations.

I have said that the founders of big businesses had always at the outset a watchful eye on all the details which, no doubt, they felt could not, in the first stages, be left to anyone less interested than themselves. In course of time, to the business magnate, details, beyond a certain point, become irksome, but somebody has to see to them, and so able lieutenants and a competent, zealous staff have to be found as the

business gradually extends and expands, department by department, and the best brains can be paid for.

The ambitious young business man should concentrate his attention on details and little things from the very outset. Nothing has a greater bearing on the formation of character and an orderly practical mind. The visionary person despises details, and is likely to die in a ditch contemplating the heavens. The great thing is to retain the power to distinguish essentials, to be progressive, and to keep a straight course.



CHAPTER II

COMMERCIAL MANAGEMENT

BY
THE EDITOR

Some General Principles—Things that Matter—Training and Experience—Mental Equipment—Business Policies—Problems of Management—Finance—Examining Financial Accounts—Controlling Overhead Charges—Staff Personnel Problems—Agreements—Control of Selling—Changing Conditions and New Methods—Control of Buying—Secrets of Successful Buying—Practical Points in Commercial Law—The Law of Fraud—A Manager's Agreement.

I

INTRODUCTORY

As a general truth, it may be said that the measure of success of a commercial or industrial business centres in the Management. This administration may be in the hands of an individual, or may comprise a body of managers with whom rests the general control of the business.

How much character and personality count for is the subject of another chapter (see Vol. I, Ch. III). That experience and expert knowledge are indispensable factors need hardly be pointed out. That the man or men possessing initiative, judgment and courage will always hold their position is certain.

Things that Matter

Every experienced manager knows that it is not enough to see that the business runs smoothly, that efficiency is maintained in the staff, and that the general equipment is of a high order in every other respect. The management in their outlook must be always a long way ahead of their staff, engaged in their day-to-day work. It is the business of the management to look ahead, to originate and plan schemes for future operations.

It is the manager who can visualise what these future opportunities are likely to be, and by letting his fancy or imagination play round them, who evolves fresh plans and activities. He will try to sense by keen observation the trend of his public's requirements, before these even become expressed. Some gifted individuals have an extraordinary intuition in this direction, but the majority only acquire this creative virtue by exercising and cultivating the general habit of reflection, thinking, reasoning, and, having arrived at conclusions, acting.

It is upon the foundation of carefully observed facts that the imaginative mind proceeds to build up plans for future activities. The creative faculty is the one most worth cultivating in every business man who is at the head of affairs. Without it he will flounder in the morasses and quagmires of doubt and indecision.

It goes without saying that sound judgment must go hand in hand with imagination. No sensible manager will become obsessed with novelties just for the sake of novelty. That point of view is fraught with peril.

One other peril of managing directors, general managers, and departmental managers alike, if they would be progressive, is the peril of getting

immersed in details and a settled groove. The mind that would be active, and have its chance, is the mind with *some* leisure to roam about in search of ideas, leisure at times to look at the business operations from a somewhat detached point of view. Otherwise the mind becomes clogged and stultified. A certain amount of detachment is essential to observation; in this sense it is true that the outsider sees most of the game.

Training and Experience

It has been frequently stated, and it is true,* that the higher positions carrying responsibilities are exceedingly difficult to fill by reason of the dearth of able men to fill them. Thousands of men, imagining they have the ability, do not believe that statement. The writer has interviewed many of them, and the point that usually emerges is this. They tell you they have the *feeling* that they have the ability to fill the post; the "feeling" is generally that, and nothing more; it usually becomes apparent that they are unable to visualise what the requirements are, and break down when they come to detail their qualifications; the mental status is the stumbling block.

They may have potential qualifications, but, lacking training or experience in the particular work, they forget, or, rather, they do not realise, how chary the managing director has to be who has taken many applicants at their own valuation and given them their chance. The experiment has usually failed by reason of the mental "qualification" turning out to be superficial or inadequate.

The men who would fill higher posts cannot expect the employer to suffer sad losses because his new manager, buyer or salesman, lacking skill and training, is only using his position in gaining experience. Men who would fill responsible positions cannot expect to be taught their job; they must know it; at least, they

must be somewhere on the way to give the employer confidence in them.

What such disappointed men should think about is this. There is no faculty of the human mind that does not lend itself to cultivation by training. For business purposes, it can be trained rightly or wrongly. The bookish-educated man is apt to be slow, self-centred and lacking in originality. He is usually slavishly reliant on others in the turmoil of business.

II

MENTAL EQUIPMENT

The young man with a University education, or who has been too long at a Public School, enters an environment that is too often distasteful after the atmosphere he has breathed. He is mentally antagonistic to his surroundings, because his brain has been organised in other directions; he has formed a habit of mind that is frequently difficult to change. He has to learn to be quick-witted and self-reliant, and accustom himself to irksome routine. He is sometimes slow to learn that business discussions and decisions have no resemblance to argumentative school methods. Although life is a blend of thought and action, it is usually true that the abstract world of thought, and the business world of action, develop different types of mind. As Emerson said, "Commerce is a game of skill which every man cannot play."

The mental faculties that are most in need of training, in nine cases out of ten, are those that tend to alertness of mind, to keen observation, to sustained concentration, to quick decision and a capacity for getting things done. To perform routine methods and follow on old lines is an easy thing; but to think out new lines which are essential from time to time, and to act independently on one's own judgment and take the responsibility of the result, need special gifts. Influences calling for new methods and

changes in policy are always at work; in fact, a certain quickness in detecting such influences and changing conditions, and providing for them, has been the making of many a large enterprise.

There are some who would say that mental culture of a high order is incompatible with the business mind; in other words, that the habit of mind of the scholar is quite different from the habit of mind of the business man. Generally speaking, that may be true, but the point need not be discussed here. We would only remark that undoubtedly in these days the conduct of a large business makes a serious demand on the mind and the time of the business man; it does not leave him much leisure to pursue academic studies. He has a definite object before him; it calls for unflinching pursuit, continual thought and reflection.

The majority of successful business men, although possessing highly organised brains, would not, in the academic sense, be termed "educated" by their scholastic friends. Nor would the business man claim that scholastic attainments are of much use to him so far as his business is concerned. He is content with his store of "worldly" knowledge—a clear brain, mental activity and abounding common sense. His school has been intercourse with his fellow-men; his wits pitted against theirs; he has no slavish dependence on books; he has experienced the truth of a saying of the late Professor John Stuart Blackie (perhaps wearied of book-learning): "The original and proper sources of knowledge are not books, but life, experience, personal thinking, feeling and acting. . . . Books are no doubt very useful helps to knowledge, and in some measure also to the practice of useful arts and accomplishments, but they are not, in any case, the primary and rational sources of culture, and in my opinion their virtue is not a little apt to be over-rated,

even in those branches of acquirements where they seem most indispensable. They are not creative powers in any sense; they are merely helps, instruments, tools, and even as tools they are only artificial tools, superadded to those with which the wise prevision of Nature has equipped us."

The business man experiences a life of intense vitality and if anyone is in touch with "the original and proper sources of knowledge" it is he.

"Education" is not the index of a man's mental powers; while we do not say it in any combative sense, the brain power and mental activity of the "uneducated" successful man of business, speaking generally, are equal to those shown by men occupied in academic pursuits or in the professions. From the very nature of his work he has been led to cultivate close intercourse with his fellow-men, to practise keen observation, to develop imagination, to draw conclusions, and all his mental activities are personal to himself. If he does not dream the dreams of philosophers, of poets and artists, he may have come as near to fundamental cosmic realities as any one of them.

Whatever our mental equipment, it should be supplemented by a good training in the principal business requirements, even if it be only theoretical. It is seldom that any one person has the opportunity of getting a practical training in every department of a large business house, and no one who aspires to fill a responsible position can hope to be thoroughly qualified if he does not have more than a nodding acquaintance with most of the subjects dealt with in these volumes.

Of character we need not speak here. More than one managing director of a great business has expressed in print his conviction that where honesty and integrity are the settled policy of the business, the greater and more lasting is its success. The confidence of the public is secured by

fair and fixed prices, based on intrinsic worth and reasonable margins of profit. The goodwill of permanent customers is a better asset than disgruntled victims.

Continuity of Policy

An important matter in management is to preserve continuity in business policy. To select the thing you want to do, and pursue it steadily month after month, is the essence of policy. It need be no hard and fast circumscribed policy; it will be flexible and adaptable, but always a fixed policy. The point about a fixed policy is "that one can judge of its success or otherwise, but indiscriminate and spasmodic ventures are disturbing both to staff and customers."

In the multitude of counsellors there is always danger of diversion into all sorts of by-paths. Most prosperous concerns have a reputation in one particular direction, built up by years of steady application; reputations are not made in a day. A first coat of varnish on the body of a motor car does not seem to make much difference, but after a second and a third coat you suddenly find that the plain wood has become a polished surface, which reflects your face when you look at it. Not one, but the accumulated effect of all those coats of varnish was responsible for the result.

That is the case with business. If every day you are continuous, you will see results.

It may not be possible to define the policy in so many words where it is the outcome of one dominant personality, but if the staff cannot define it, they can feel the unwritten secrets of those in command.

And continuity is almost another word for tenacity. It is this tenacity and persistence that enables one to concentrate in defending a business against competitors and marauders.

The policy that makes for permanent efficiency is always preferable

to opportune and spasmodic efforts which aim at a temporary success. All this does not mean that there is to be no audacity in thinking out new ways, new methods and development schemes—far from it.

In management it is, first of all, knowledge and judgment that count, and after that the capacity for action.

Judgment

Good judgment is founded on knowledge. If you were asked for an opinion upon a question in mathematics your opinion would not be worth having unless you were well versed in mathematics. It is also clear that if you were asked to pass an opinion on the texture of, say, a table-cloth, your judgment would be worth little unless you knew a great deal about table-cloths. If your judgment were asked on a question of medicine—supposing you were asked why little Tommy's metabolism was bad—it is obvious that your opinion would be worth nothing unless you knew something of the intricacies of digestion and of the burning up of food in the human body.

So it is with all technical subjects. Judgment must depend upon technical knowledge. And yet good judgment is more than that. It by no means follows, that, because a man possesses technical or scientific knowledge, he has got good judgment. Even with such knowledge, one may not have the power to give a wise opinion upon certain phases of business, or upon the affairs of life. Good judgment is a quality of the mind which enables persons to form a just estimate about facts which they understand. It is curious that many people who have excellent judgment about the affairs of life and about business propositions, particularly about the prices and equality of goods and so forth, are unable to explain the processes by which they arrive at their conclusions. And yet they are usually right. There are some whose judg-

ment is almost invariably sound or with a very small percentage of wrong conclusions.

The mind of the commercial manager should not be rigid, but elastic. He should be capable of taking long views and have a wide outlook; sympathetic, yet critical; not afraid to yield a point to the keen enthusiast. He will not be afraid to trust his own judgment when confronted with new ideas, if he has experience and knowledge at his back.

Optimism

The sanely optimistic man is also an asset to any staff. He is as invigorating as a breath of fresh air. The genial and optimistic frame of mind helps things forward; it creates atmosphere. The person given to doubting and hedging is the one likely to be beaten; he is half beaten at the outset; whereas the one with the confident idea he is going to win is likely to win; at any rate, he has the frame of mind calculated to win. His own optimism acts as a spur to himself and others. Some people are naturally optimistic, but others are not. But optimism is a point of view which can be cultivated, just as cheerfulness can. About the *foolishly* optimistic ones we need say nothing. They are easily detected by their own beacon light of warning.

Problems of Management

Few principals or general managers of progressive businesses have much time to devote to matters of daily routine, beyond receiving reports from heads of departments, and necessary consultations.

When the various departmental divisions and staff arrangements are settled—with proper division of responsibility—and an intelligent routine established, and in addition a general system of control instituted, the principal or manager is free to devote himself to his proper function—to frame policies, to lead, to explore

new avenues of progress, in a word to generalship.

This does not mean that he renounces all concern with automatic routine. If the organisation is good and his report system intelligent, facts, figures and reports will keep him sensitive to slackness here, and to weakness there. The *percentage* of efficiency in every concern tends to get lower where there is not periodical investigation and adjustment. No routine is sacred; no methods remain permanently the best. The business machine, like the human machine, tends to run down, or, at least, it changes with passing years. *Gradual* changes for the worse have to be carefully scrutinised. The horse carriage-builder, or horse 'bus-builder of yesterday becomes the motor car manufacturer of to-day.

We have mentioned control. This, along with leadership, is the most vital function of a commercial manager.

The control of the Sales side of the business, the control of Buying, the control of Expenditure, the control of Finance, are subjects that require constant attention. They are intimately related, and we may consider them all generally, for the moment, under the heading of Finance. No one man can control all the many operations of a big business without an efficient body of sub-managers behind him, who should be given as free a hand as possible; but control of some kind over these lieutenants must be exercised. There are many things that cannot be delegated to departmental managers, and there must be co-ordination. There can be no water-tight compartments.

The prerogative of a General Manager is to have possession of all the vital facts concerning the business. In all consultations, or conferences, or meetings of a Board of Directors, one thing is important—a knowledge of all the relative facts of the matter under discussion. If the various members of a Board of Directors had

all the facts of a matter before them, they would probably come to a like decision; if not, they would know on what particular they differed.

III

FINANCE

A separate section in this work is devoted to the subject of Finance. The capital employed in a large company, and the manner in which it is raised, belong to the province of the principals, or to the directors. There are aspects of this subject, however, which intimately concern managers. In large measure it is they who determine how the capital is employed, and employed to the best advantage. If a company is over-capitalised; that is, if the issued capital is more than the business can earn in profits to pay reasonable dividends, the fault does not lie with the management.

The working capital of a limited liability company may fall far short of its total issued capital (see Chapters V and VI), thereby proving a serious handicap to its dividend-earning powers. Insufficiency of working capital is the rock on which many a business comes to grief. That part of a company's capital which represents money paid, or shares issued to vendors, or promoters, or used in providing buildings, plant and equipment may be out of all proportion to what is left in liquid form as working capital.

Working Capital

The point which will engage the manager's attention is this amount of working capital: the money, that is, which is available for him to buy and hold the maximum stocks, to meet working expenses, to provide the credit represented by the book debts, to maintain an adequate bank balance, to meet all liabilities promptly. In particular he will see to his bank balance, for there are always emer-

gencies to consider. There may come adverse times, for instance, or there may come sudden opportunities when stocks can be bought in exceptionally favourable circumstances. If heavy interest has to be paid for loans or overdrafts much of the gilt is taken off the gingerbread. Loans and overdrafts have also a bad effect on the credit of a concern.

The manager has, therefore, to exercise supervision of finance. He may have to curtail his activities, remembering how important it is to buy on the most favourable terms. On the other hand, it is necessary to carry ample stocks and to give as extended credit as rival firms. The test of dividends, therefore, is not always the test of good management and remunerative trading. If the concern, whether a private or limited company, is over-capitalised, that is no fault of the management.

To most energetic, progressive managers the question of finance is irksome; to be compelled to study too many statistical records and details of finance worries the active mind of the manager, who feels his energies are better employed in doing those things which really count in the long run. Here the benefit of an efficient accountant and cashier can save him both time and worry, by providing such periodical statements and returns as he can readily digest. Such statements would show the total purchases and sales and the variation of stocks, expenses totals, financial summaries, together with the bank balance at stated periods.

These periodical statements and statistical returns are fully exemplified in the chapter on Organisation. It is only needful, therefore, to say here generally that the particulars thus provided should be studied in relation to the larger question of finance. There will be some quota of Capital reserved for purposes distinct from trading, capital that may be required for buildings, machinery and plant

and necessary extensions thereof. It is well also to have ample liquid resources for contingencies of various kinds. If reserve funds, and profits earned, are merged in the business, all locked up in stock, or machinery, financial embarrassment may ensue. It often does arise from rapid progress of a business. In such cases the trading is apt to outrun the available working capital. This subject is developed in the chapter on Organisation.

How, therefore, to make the most of the working capital at his disposal is the question for the principal or the manager of a business.

The value of stock that can be carried, and the control of buying or manufacturing, has a foremost place in counsels of the management. If the working capital of a business remains at more or less the same figure, then, obviously, production (or, with a merchant, buying) must be regulated by sales. For the cash to pay for purchases, or production, comes from sales receipts. A balance between income from sales, and production expenditure (or, with a merchant, purchases), must be, therefore, maintained. The annual balance sheet will reveal the difference in amount between liquid assets (and assets that can be readily realised) and liabilities. But one cannot safely wait for the results of an annual balance sheet, and guesswork should be eliminated in every sphere of business.

What Cash Discounts Mean

Many matters of detail are also of importance. There should be a proper policy as regards the giving, or taking, of Bills of Exchange; useful and all important as they are in financing business transactions, if not handled with due regard to the financial resources of the business, they may prove dangerous expedients. One other detail; the actual loss in failing to take advantage of every available discount is of far more importance than is generally realised. If in

order to obtain a three months' extension of credit you give your creditor a Bill for that period, and on that account sacrifice a settlement discount of $2\frac{1}{2}\%$, you must recollect that you are paying for this accommodation at the rate of 10% per annum for the use of the money for that period.

To take another illustration of the unprofitableness of sacrificing discounts. If the *prompt* terms were $3\frac{1}{4}\%$ discount in ten days, or $2\frac{1}{2}\%$ monthly account—and these are not uncommon terms—you can, by taking the $3\frac{1}{4}\%$ (thus paying within 10 days instead of 30 days), gain £1 5s. on every £100, which is equal to about 20% per annum on the money employed. It would be an exceptional business that could utilise its capital so well as to enable it to do so in a more profitable way than by taking advantage of discounts in such a case as this.

It should be the aim of every well-conducted house, as far as possible, with due regard to all the conditions of their operations, to reach that stage where they can take advantage of all prompt cash discounts.

IV

EXAMINATION OF ACCOUNTS

Every manager should understand the fundamentals of accountancy, first in his own interest, that he may feel satisfied as to the staff or professional accountant's methods; secondly, that he may thoroughly appreciate the significance of financial statements, the bearing of figures, and be able to draw correct conclusions. (Lord Beaconsfield said there were three degrees of lies: lies, d—d lies, and statistics.) He will frequently find that figures showing net results do not always tell the whole truth.

Analyses will often reveal, hidden away somewhere in the details, something that had been forgotten, some special expense, transaction, or provision, which gives a different complexion to the year's results. A

change in the method of distributing establishment expenses, or in the bookkeeping treatment of certain "transactions," the creating of reserves for contingent losses, or the writing back of such reserves when no longer required, and other similar affairs should always be reckoned with in considering departmental results. Otherwise the operation of one year's trading may appear to be better, or worse, than is in reality the case.

Holding the Balance

Again, departmental managers are very keen on their accounts showing the best results. They may dispute the accountant's fairness in allocating establishment overhead expenses or other adjustments, and the manager is often called upon to decide what is strictly fair between contending parties; as the final court of appeal he may have to act in this quasi-judicial capacity. Some very nice points arise also on which there may be difference of opinion as to the differentiation of capital and revenue expenditure.

It is not always easy to distinguish to what class such expenditure may belong. If it is capital expenditure the year's profit and loss account is not affected. A revenue expenditure, on the other hand, decreases the profit. Again, as to the treatment of special expenses, as, for example, heavy advertising, or development expenses, in one year. Is the benefit of that expense worked out in one year, or two years, or more? There are other kinds of expenditure in one year which, it may be argued, are properly chargeable against the profits of the ensuing year.

Doubtful Methods

Suspense accounts created to spread abnormal expenses over a period are justifiable, but, if not rigorously dealt with, dangerous.

The following statement appears in the report of a large company, published on the day of writing this:

"The Directors have written off the Profit and Loss Account the Advertising carried forward from last year, amounting to £456,441." A wise proceeding, even if the benefit of the whole of the advertising was not completely worked out. Big items of what is called a non-recurring nature are often spread over a period, but should an unfavourable year happen the temptation is to write off as little as possible from such suspense account. The cumulative effect of such methods may be embarrassing.

Where subsidiary companies keep independent accounts, it is not obligatory on the parent company to bring into its profit and loss account any loss sustained by one of its subsidiary companies. Such things as these are hidden up in many published accounts of limited companies.

The item "Debtors and Debit Balances" in a balance sheet may cover a multitude of sins. So, likewise, the item, "Shares in Other Companies," appearing among the assets in so many balance sheets, may represent either an under-valuation or an over-valuation.

The question of secret reserves and other matters are considered in the chapter in Vol. I on Limited Liability Companies.

Another point on which the manager may have to adjudicate is that of Depreciation. There is no one system of writing off depreciation that will apply to every business and to every kind of asset. Every well-conducted business will, of course, make ample provision for the depreciation of every wasting asset, whether securities, buildings, machinery, furniture or fittings, or merchandise. No haphazard method of dealing with depreciation should be tolerated, otherwise confusion will arise and the accounts will only be misleading. Provision for every kind of depreciation should be made each year by charging against the profit and loss account the estimated percentage of depreciation for

the year. The methods of computing depreciation is treated elsewhere.

All these things indicate the advantage to the manager of a large concern, or a modest one, for that matter, of being conversant with the principles of accountancy and finance. In appraising the standing of other businesses, such knowledge is also valuable.

V

CONTROLLING OVERHEAD CHARGES

We come now to the control of expenses. The detailed methods of supervision and control will be referred to presently and also in the chapter on Organisation. In the management of a business, control of overhead charges is very important. We need not stop to consider in what way, exactly, accountants define "overhead charges" or "working expenses." They will probably say they are charges connected with non-productive work, but what one person considers to be non-productive work, another person may think otherwise. He may take a different view.

The practical point at issue is, when overhead charges seem to be in excess of what they should be in relation to turnover, what is the best direction in which to turn to effect a reduction?

In the absence of complete information, it is quite possible, with decreasing sales, for a manager to think he is still making a sufficient margin of profit, while in reality he is not. His final accounts at the end of the year may give him a rude shock.

The Datum Line

Where accurate methods are employed for controlling expenses, a normal datum line—the outcome of experience over a period of years—will indicate whether the range of overhead expenses, reckoned as percentages on sales, is satisfactory, or unduly high. The percentage doubtless will vary from time to time over

a period of twelve months. The object of this statistical control is to see that the safe mean is maintained on the year taken as a whole. Notable differences will be investigated betimes.

It is not an easy thing to adjust overhead charges to the varying circumstances of the business. Whether times are good or bad, certain expenses—rent, rates and taxes, salaried officials, expenses of administration and so on—go on. It is always well to, know what proportion overhead charges, which comprise a multitude of things, including certain salaries and wages, should bear to the total turnover over a period. If the normal proportion rises seriously, it is evident that some steps must be taken to restore the balance as far as can be.

Solving the Problem

The problem may not be an easy one to solve. The first direction to which one turns attention is usually the staff. That may be right; it is more often wrong, if it is an efficient staff. As another writer has said, "It is always a question requiring a very nice adjustment, according to the circumstances of the case, as to how far it is desirable to curtail expenditure in quiet times by reduction of staff. It is naturally a question that must be determined in each case upon the individual circumstances, but the larger the concern, and, therefore, the less the amount of the personality of the proprietors that is actually put into the business, the greater will be the need for a permanent senior staff thoroughly familiar with the rules of the house."

If the business "slump" is only a temporary one, the wise manager will be careful that he does not run the risk of a permanent loss in adjusting expenses. It would be bad policy to interfere too much with production charges or "expenses." For instance, the drastic cutting down of advertising appropriations may have the effect

of worsening the sales records; that depends entirely on the nature of the business in question. The departure of good salesmen, or any other capable members of the staff, may likewise have permanent bad effects. The loss of efficient men, it should be borne in mind, may be a gain to some rival who may make good use of their services, to the disadvantage of the firm losing them. The point the manager will bear in mind is the question of efficiency. Generally it will be found good policy to bear temporary loss rather than incur the risk of permanent injury. How best to secure increased efficiency is, therefore, the problem; for increased efficiency spells better results. A remedy for excessive overhead expenses must, of course, be found; the chief himself will settle the principle on which a reduction of expenses is to be effected, and the individual members of the executive staff will be left to do what is needful. *The thing has to be tackled.*

An experienced business man referring to this subject sums up the matter thus: "Times of expansion, when those responsible for the organisation and management are worked to their utmost capacity, and when they are also earning good profits, are not the times when, having done the work that lies immediately to hand, men are going to sit up at nights thinking how they can effect small economies; but on the other hand, in bad times, when they have not enough to occupy them fully, they have time on their hands, and the vision of dwindling profits is a very active spur to the imagination in devising methods of saving money and preventing waste.

"That particularly applies to those in the most responsible positions, but in a sense it applies to practically all save the lowest grades. Prosperity is in a sense demoralising, and leads to extravagance; adversity, on the other hand, tends towards economy. That is one reason no doubt why, as between times of great pressure and

comparatively slack times, business profits do not vary more than they do in practice."

There is a point in connection with sales which has an important bearing on this subject of overhead expenses, to which we shall refer presently in dealing with the sales end of a business.

VI

STAFF PERSONNEL

The responsible heads of departments, from the managing director downwards, find that amongst their duties one of the most vital is the selection and handling of the *personnel* of the staff, particularly those of the staff who can promote, or retard, the progress of the business. The head of a department must exercise fairness; he must possess considerable will power and the power of decision, a courteous firmness of manner and an optimistic outlook.

Organising Ability

The two authors of "Office Organisation and Management" (Mr. Lawrence R. Dicksee and Sir H. E. Blain) will pardon us quoting the following paragraph from that admirable book:—

"For the more marked success, organising ability of the highest order is, of course, necessary. But, after all, what is organising ability, and is it not possible to acquire it, at all events to a fair extent? It is true that many men have that gift of intuition which enables their minds to grasp almost with lightning rapidity the bearings of a case, that logical faculty which marshals up without difficulty the *pros* and *cons* of a knotty point which must be settled, that ability of foretelling results of events which is almost uncanny in its far-sightedness, that grasp of method and of detail which makes their brain like an orderly cabinet from which may be obtained at a second's notice whatever information may be required, and

that capacity for rapid and accurate decision which almost amounts to genius.

"But, on the other hand, much of each of these qualities may be attained by that 'infinite capacity for taking pains,' which, we are told, is akin to genius and is asserted by some to be genius itself. The cultivation of a habit of business accuracy, the thoughtful study of varying idiosyncrasies and types of character, the careful tracing of cause and effect, research into sources of commercial information, the compilation of useful notes, a tactfully exercised curiosity acted upon by a *soupçon* of that 'gospel of discontent' which is so powerful an incentive to those who desire to mount life's ladder, will go far to foster powers of organisation, and there are many ways in private and social life in which useful experience may be obtained. Honorary secretaryships of some of the numerous organisations which play so large a part in modern life offer most useful opportunities of acquiring valuable experience, and are of unmistakable benefit from the training point of view when the duties connected with them are undertaken with intelligence, enterprise, and industry."

Estimating Character

The ability to read character is a great asset; where an appointment has to be made, much depends on forming a true estimate of the character and mental qualities of the applicant. One attribute is usually fairly easy to detect; that is, the quality of ambition. The young man who is of a naturally ambitious turn of mind is at least "a starter" in the race to the top. He must not be taken at his own valuation, for no doubt he has some flaw that he has not detected himself. However, ambition is an essential trait in the character of an assistant, because the man whose mind is continually set on mounting the ladder will certainly get as high as his capacity permits.

It is too frequently the case that "taste" for a job, and talent for it, do not co-exist in the same individual. To have a "taste" for an out-of-door position in preference to an indoor one is no guarantee of proficiency as a commercial traveller; to have "a taste" for writing and designing advertisements does not argue talent in that direction. To feel a keen natural interest in one's particular work is all to the good, but, again, the principal, experienced in judging men, while recognising *that* as a favourable symptom, will need to be convinced of more positive virtues in his man.

An analysis of the mental characteristics of successful men in commerce, as in the professions and other walks of life, reveals certain qualities which they possess in common. Amongst them we find an ambitious temperament linked with inflexible resolution; a quick mind and a restless activity; a courageous outlook, self-reliance and confidence; a capacity for evolving original ideas, and the faculty of taking great pains in getting his ideas carried through. The value of originality in a man lies in this: it opens up fresh fields, it *creates* business; progress is quickest and easiest where there is less competition, than in old ways.

Charm of personality is always of great value where it exists, but where the control of a large *personnel* is concerned it is of less importance than a tactful disposition supported by firmness and will power. To find the right man for each particular appointment is a thing of first importance, and no pains should be spared in the effort. The next thing is to let them be trained according to their own individuality.

Temperament, particularly, has to be considered in many appointments. A man may have done good work indoors as a team worker under supervision. "On the road," away from any controlling influence, and having to rely entirely on himself, he may

not be a success. He may lack self-reliance, be unadaptable, be easily intimidated and feel himself quite at sea. He may be a good man indoors, but ineffective as a traveller. Conversely, the impulsive, temperamental man, the man with natural ambition and impatient of restraint, may be a difficult person to handle indoors, but he may be in his element as an outdoor salesman.

Receiving Ideas

Every business man holding a directing or an executive position should be on the look-out for men with ideas, although probably he has had discouragement enough in this direction to make him impatient of people who claim to have "ideas." A blank wall of conservatism, that bars anything new, is the most discouraging obstacle to progress that can be imagined. A director of a great business has rightly said, "sometimes it is the unimaginative mind of the person to whom the suggestion is made which fails to see the possibilities of an idea. There are people who receive a suggestion from a member of the staff as though it were an impertinent interruption, or as if they were conferring a great favour by even listening to it. It is as though they thought their own 'importance' would suffer if they admitted that anyone could think of an idea before they did. We have often heard, 'It's no good suggesting anything to him; he's sure to turn it down.'"

"Now, anyone who is in a position to receive suggestions, whether he is the chief of a great business or a departmental manager, should realise the value to the business of a receptive encouragement towards suggestions. Perhaps only one in fifty ideas may be actually practical when examined, but as regards the others a proper reason for rejection should be given, and the one who thought of them should be encouraged to try again, helped perhaps in his next attempt

by the knowledge gained in the first refusal. A receptive encouragement inspires a courage to think constructively, and creates a spirit of co-operation for the benefit of the business and its members."

Four Grades of Employee

Mr. Oliver Sheldon divides employees into four grades. "(1) The man who requires to be told how to do it and needs watching and checking all the time; (2) The man who requires to be told what to do and how to do it, but can be depended upon to carry out instructions; (3) The man who simply requires to be told what to do, and who will find the best way to do it; (4) The man who initiates."

The same author remarks, "The consequences, deleterious to the interests of both employers and workers, of putting square pegs into round holes have never been fully realised. An ill-fitting screw receives the immediate attention of the mechanic, but an ill-placed man is left to work his own way. We trust too much to the adaptability of men. Men are not adaptable as regards their fundamental characteristics. A clumsy man can never become dexterous. An intelligent man will never be content with unintelligent work. Even if men were adaptable, we should still have the waste due to the rubbing off of fine corners and the discontent arising from unsuitable application of effort."

Heads of departments should, as a general rule, be relieved from being over-burdened by detail work. They should have time to exercise their imaginative and inventive faculties, which, if well directed to inquiry, research, and investigation, will lead to improvements and developments of business. The trouble is, that, as efficiency means doing work in the best way it can be done, and as the number of people who are efficient in this sense is limited, the head will generally prefer to do it himself.

Experience and Training

In these higher positions, where mental qualities are so important, the next thing to be considered is the applicant's technical knowledge and experience. The all-round man is not so desirable as the specialist; first, because the specialist knows his particular subject *thoroughly*, and, secondly, the fact that he has applied his mind to mastering *one* thing is some proof of his capacity to master another. The specialist even in a humble sphere can always handle his department or his work in the most efficient way. He has acquired expert knowledge; he knows the quickest, surest and most economic methods. There is nothing haphazard about him. He has developed a capacity for action, a knack of getting things done. It is the *lack* of that capacity which is at the root of so much disappointment.

Almost as much care should be exercised in filling subordinate posts. The subordinate positions should be looked upon as the training ground for higher posts. For that reason youths of the right calibre should be selected. It is among the youths of average ability, outstanding ability being so rare, that one looks for the coming men. A few of them are certain to be of the kind that make the most of their opportunities, and they will be in a few years something more than men of average abilities. They will have outstripped the others.

In another chapter there is a description of the work of a technical school; there are many similar technical institutions giving instruction and training in the business arts and crafts throughout the country. The capable managers of large businesses should remember these schools are turning out the kind of assistants that they require from time to time. Indeed, it would be all for efficiency if more attention was given to the production of certificates of some kind or other when engaging even junior members of a staff. There is good

reason for asking a clerk to produce some sort of certificate in such subjects as shorthand, elementary book-keeping, business routine, arithmetic and like subjects. Throughout the country there are many institutions, societies and other bodies issuing such certificates to students; institutions like the Chambers of Commerce, the Society of Arts, the College of Preceptors, the Oxford and Cambridge Joint Board and numerous other bodies.

In the higher branches of study there is the Institute of Secretaries, the Institute of Chartered Accountants, the Institutes of Actuaries, Bankers and so on. There are also numerous private schools and colleges turning out well-trained students in salesmanship, advertising and other specialised subjects.

No theoretical training can be a substitute for a practical experience, but such training is valuable in cultivating the business faculty, in training the mind, in giving the beginner some insight into, and acquaintance with, various subjects; it is some guarantee also to the employer that such students have demonstrated their will to make the most of themselves by sacrificing some part of their leisure hours to studies which demand personal thinking on the part of the student, industry and perseverance. They are working constructively, with some end in view, which is a great thing.

The possibility of staff friction, jealousy, and the undesirable type of rivalry should be minimised so far as possible. These things usually occur where there is no proper line of demarcation of work and responsibility. The division and sub-division of departments, or of individual responsibility, will differ, of course, in different businesses. But even in smaller concerns the allotting of responsibility is important.

The Question of Remuneration

There is often no more puzzling problem than settling the remunera-

tion of members of the staff. The manager who seeks to pay the lowest possible salary or commission is not in touch with accepted modern principles. The difficulty that frequently confronts the manager or executive is the method of remuneration as regards the more important members of the staff, those who have it in their power to create and develop business, or to maintain and further efficiency, or, in a word, those who can directly influence manufacturing economies or sales results.

Should departmental heads, buyers, salesmen, advertisement managers, and others be paid by a fixed salary, or have the added inducement of a commission or bonus arrangement? And, if so, on what basis?

Some will argue that a fixed salary is the preferable method, adjusted from time to time in harmony with proved ability; the objection they urge to the commission basis being that, while it may be satisfactory enough, say, to the salesman, it is not always so to the business. A salesman whose remuneration may be largely dependent on commission is tempted to take the line of least resistance, to devote himself too much to a profitable line of goods, or to a fruitful territory, or to certain big customers, or to granting undue concessions to customers for the sake of influencing orders. He is averse to developing his ground, to doing pioneer work, to bothering about the smaller things. These are some of his temptations.

On the other hand, those employers who favour the commission and bonus principle maintain that these drawbacks can be overcome, that the incentive of commission to a salesman is obvious, and that he is justly entitled to share the rewards of successful business, in proportion to the success. If two men are equally good salesmen, the one, however, working poorer ground than another, that does not prevent an equitable adjustment. The test of remuneration in both is ability.

While writing these words, the following paragraph attracted our attention in a weekly trade paper: "It is almost invariably disastrous to put a cheap man on a fully developed and remunerative territory. The experiment has been tried over and over again, and never, so far as I am aware, with success. A cheap man does more harm on a fine territory than he does on a poor one, simply because he has more opportunities of doing harm. When a territory is once fully developed, it takes a good man to keep it up to the mark, although, perhaps, it does not require the services of the best man on the force."

The wise manager will use his judgment; circumstances and individual cases require special consideration. Further, the inducement that makes a special appeal to one salesman does not to another; some like to feel they have a certain stated income, others like to take the risks of an undefined income, dependent on their ability. So it is with other members of the staff; in the main, the commission basis is favoured. And the employer's attitude should be, "What is the most I can afford?" not "What is the least I can give?" Where a good all-round standard of efficiency is maintained, better salaries can be paid; where there is inefficiency it reacts on the efficient, because it must affect the general standard of salaries that can be paid.

Travellers' Expenses

The question of agreements and methods of remuneration of salesmen has been already referred to. (See Vol. I., Chapter XIV.)

Selling expenses tend to increase with increasing competition. In many instances the use of a motor car by outside salesmen has superseded railway travelling. It is no uncommon practice for employers to purchase a car for their travellers, who in turn pay for it by instalments under an agreement on the following lines:—

The firm buys the car and becomes the owner; the traveller pays an agreed sum to the owner on signing the hire purchase agreement, and the balance in stated instalments at regular weekly or monthly intervals; he covenants to keep the car in his own possession and in good repair, to pay licences, taxes and insurance, the owner retaining the policy of insurance and the full benefit thereof. During the continuance of the hiring agreement it may be part of the arrangement that the traveller will not take up any other occupation. In the event of default in payment of instalments, or in the observance of the terms and conditions of the agreement, the agreement may be determined, and the owner takes possession of the car without being entitled to repay any sums paid by the hirer.

The agreement may contain a clause providing that, in the event of the traveller determining his engagement with the firm, he may purchase the car by making full payment of any balance of the instalments, and any other sums of money which may become payable under the agreement, and the owner agrees to assign to him all rights in the car. If the hirer duly performs and observes all the stipulations of the hire agreement, and shall have completed payment of all the instalments, the hiring agreement comes to an end and the car becomes the property of the hirer.

Whether travelling expenses are based on a fixed sum, or actual out-of-pocket expenses, is a matter of arrangement. A conference of the Sales Managers' Association recently discussed the subject, and we take the following summary of the discussion from "System."

"It was shown that individual experience was divided between a fixed expense allowance and the payment of expenses as reported by the salesmen. It had been found by many firms that the fixed sum, either

arranged from year to year, or month to month, or defined in the salesman's agreement, avoided any friction or ill-feeling. If at the outset the question of what expenses were legitimate was thoroughly gone into, and then a sum decided upon, discussions were avoided. If the traveller was able to make anything out of his expenses well and good.

"On the other hand, some firms had found that fixed expenses tended to make the salesmen chary of increasing expenses to go long distances in the interests of the firm, when such action might mean the overstepping of his allowance. This, of course, tends to circumscribe effort."

We may venture the opinion that there is not a great deal in this last argument.

VII

MANAGING THE SELLING SIDE

The most difficult problem in many industrial businesses to-day is that of marketing, or selling. It is not true nowadays that demand regulates the supply. The seller has to go in search of the buyer as often as not. Modern selling, to a larger extent than ever before, consists in creating demand by stimulating amongst particular classes of the community a desire for the article.

The Economics of Selling

Thus the marketing of goods has become an expensive affair. It is well enough known that, as a general rule, it costs more to distribute goods than it does to manufacture them. The retail price is made up of manufacturing cost, plus the selling, or distributing costs, and the latter is generally almost as much as the former. Often it is far higher, especially if the goods have to pass through the hands of middlemen before they reach the consumer. The necessary middlemen may include wholesaler as well as retailer. In several trades the middle-

man shows signs of disappearing; the manufacturer is dealing directly with the retailer, and sometimes with the consumer.

In this respect the organisation and control of the sales side of a business are, therefore, as important as the manufacturing side. Not only have markets to be found, but an economic basis of marketing goods has to be fixed and maintained, if sales are to be remunerative.

The economic factors include, not only the services of sales managers, travellers and staffs, but the cost of warehousing and stock-holding, transportation and the cost of mechanical distribution, advertising and so on. In a manufacturing business the aim of costs systems is to ascertain what are the actual costs incurred at different stages of the work, and that these costs are maintained at a figure that will show a profit on the sale price of the article. A cost system—although it may have a different name—is as necessary for the marketing of goods as it is to the manufacturer, if the desired percentage of net profit is to be realised and maintained with any degree of certainty.

Co-operative Methods

It is problems like these that have given rise in recent years, on a large scale, to the grouping under one control of different businesses engaged in the same branch of industry. The same combinations, merging of interests, and the forming of cartels for co-operative advertising, selling and marketing of goods, have taken place in America and on the Continent.

This policy of co-operation does not suit every kind of business, but in many industries it works in a satisfactory way to all concerned. Independence in management and organisation is maintained in the individual businesses, outside the immediate purposes of these selling and marketing groups. Frequently the objects extend beyond selling, and

aim at controlling raw material and at manufacturing it. The subject and its bearing on modern industrial business are further considered elsewhere in this work.

The aims of these groups and combinations are the elimination of all unnecessary and redundant expenses, and reduction of distributive costs all round. Smaller business firms working on their own must also have continually in view the reduction of overhead charges and the elimination of every item of unnecessary expenditure. These things call for expert knowledge and the means of comparing cost percentages with rival firms.

The Salesmen

Elsewhere in this work a chapter is devoted to Organisation. There, some typical examples of statistical records and other forms are given, designed to keep the management in touch with the affairs of various departments. Statistical forms of this kind are invaluable; it may be that a principal, or a sales manager, knows the work and character of his outside salesmen or travellers so well that he thinks he can dispense with statistical records. That is a mistake. They are useful because appearances are not always what they seem. Complete facts and figures placed before one *in writing* will often reveal things that otherwise would have escaped notice. They are also records from which the capable manager can make useful deductions.

The commercial manager must have complete knowledge of his travelling staff and their work, and retain control of this side of the business. A good traveller is usually a man of marked individuality and is often not very amenable to rigid rules and regulations. More than usual confidence has to be placed in men of this type; personality is a big asset in salesmen if it is the right kind of personality.

A salesman may succeed in certain circumstances and fail in others. The

manager who uses the inductive method of reasoning is apt to jump to conclusions; he forms certain ideas about Jones, but these conclusions may not be based on the true facts about Jones. The apparent failures of Jones may have reasons behind them which have not been properly considered. Jones may have been sent into the provinces with a certain line of goods to sell, this same line of goods having done well in London under the salesmanship of Robinson.

Both the manager and Jones had harboured the idea that they would meet with equal success in the provinces. They did not, so what more natural than blame Jones? It was the "idea" that was wrong, and not Jones who was the cause of failure. Deductive reasoning is the method of arriving at conclusions from accepted or established facts. In this case the deductive method would have established the facts *before* Jones was sent into the provinces.

In similar ways, both as regards plans and individual men, many problems can be approached. It will be observed that the sending of Jones to the provinces was the practical method of finding out the facts; if the failure was put down to Jones, then Newbody may be sent; and after Newbody's failure some other person, so that the experiment may be expensive; all of which goes to indicate that both deductive and inductive methods of getting at facts should be employed.

Ascertaining Facts

It is of first importance to ascertain reliable facts both about men and selling schemes before employing either. Once a manager has facts before him he can draw sound conclusions and use his judgment, but not before. Then he can formulate his sales organisation with some degree of confidence. The easiest way to solve any problem is to collect and array the facts; and often to put them down on paper is

to clarify the mind in forming a judgment on them.

Changing Conditions

Conditions change, in some businesses very quickly, in others more slowly, and here a watchful eye is necessary. The decline of many an important business has been traceable to a lack of foresight in this direction.

A year or two back a large wholesale company paid dividends for the year amounting to £120,000. It dealt in a finished article, which was also the raw material of another industry, and was sold both to manufacturers and to the public through the trade. The company employed thirty travellers, and had a number of large customers. About that time it lost one of its best customers, and had to build up new business in a period of special difficulty. During the next two years the profits were insufficient to pay the preference dividend. There were several directors, each of whom had spent a lifetime in the business.

An expert in business research was called in to investigate. The following results ensued; in the delivery and transport services alone economies were effected which equalled four per cent on the preference shares; of the thirty salesmen, the great majority were found to be not making their expenses; each of these men had held the same territory for years; a re-organisation of selling methods proved successful in what had been unprofitable territories, with the result that lost ground was gradually recovered.

The loss of that one big customer at a critical time in the company's history was the means of letting in new light upon the whole internal organisation of the enterprise; the research that was conducted involved a great deal of laborious enquiry, and the analysis of sales figures and of territorial possibilities; but the result proved the labour to have been worth while.

In another instance a textile manufacturer's customers were the large merchant firms who at the time of the great slump were quite unable, either to give him further orders, or to pay for the goods already supplied with which their warehouses were stocked. For certain reasons he could not brand his goods and sell direct, so his whole business almost came to a standstill. Then a number of markets overseas were specially investigated for possibilities of developing sales, and several of them were found to be suitable for an intensive stimulation. This, combined with the merchandising of the goods under the maker's brand to suit the varying conditions of the countries chosen, proved so successful that within three years these markets were alone sufficient to absorb the whole output.

When business difficulties arise it is the practice to call in an expert accountant. More often it would be found to be more to the purpose to call in a research expert, for there is a technique in research and investigation, akin to the technique of scientific and engineering research.

Intensive Tests

It is highly desirable, periodically, to make an intensive examination of the sales organisation, and of salesmen's reports and sales records. The palsy-hand of routine is apt to afflict certain outside salesmen who have an established connection, and who doggedly follow their accustomed ways. They are apt to be slow to spot the trend of events, and to keep their principals informed of changes that are taking place.

The *potentialities* of demand in a particular territory should be appraised and borne in mind when studying the reports, and results, of salesmen's work. Salesmen's reports are naturally framed to shadow forth their own efficiency; too seldom have commercial travellers the time to give to a survey, and a deliberate study

of conditions in their areas. The wide-awake manager will look for some signs of initiative when looking through the reports of his staff.

There are usually certain matters about which the manager of a business has occasionally to remind his salesmen. Some goods have a quicker sale than others, and, on the principle of taking the line of least resistance, it will be frequently found that an undue proportion of a traveller's orders are for the easier sold goods which usually bring less profit, and the more difficult classes are in the background. The salesman has in mind the volume of his orders; the manager, however, expects him to have constantly in mind the goods which, maybe, are more difficult to sell, but on which there is a greater percentage of profit.

The manager, therefore, studying travellers' sales reports, may have to pointedly draw the attention of salesmen to deficiencies in this respect in their work.

Every year, by the pressure of necessity, selling is becoming more scientific. The wise manager will not only measure his salesmen, but he will measure his markets. He will have them surveyed in the light of his particular product. "Who are the potential buyers?"—"What is the purchasing capacity of a particular community?"—"What proportion of business have I in relation to other competitors or to the whole?"—"If not, are my goods right, or is my selling organisation at fault?"—"What is the element of competition I have most to concern myself with—price, suitability of article, service, or what?" These are a few of the questions he will put to himself. All the facts of a case must be known before judgment can be formed, and action taken. It is problems like these that make business such an interesting pursuit to live men.

This is where the subject of business research comes in; it is a branch of business of recent growth and is dealt

with in a separate article. We repeat here a paragraph from Mr. Jackson's article on Salesmanship, as it concerns the management more, perhaps, than the individual salesman.

"It is often worth while to put a doubtful territory to a thorough intensive test, according to the nature of the article; the *immediate* result more than likely will not repay the advertising and salesmen's expenses, but if the market thus opened up is likely to remain a *lasting* market the initial outlay, or development expenditure, may prove quite remunerative in the end. One experiment of the kind successfully carried through will be repeated elsewhere, and the total business may accumulate to a very appreciable amount. Any observant person can see for himself throughout the country how frequently one or two particular manufacturers' brands of goods monopolise the shops, while other manufacturers' are conspicuous by their absence. Very often this is simply due to the 'not worth while' policy of non-progressive sales managers. It is a matter for individual sales managers to settle for themselves, but if such development efforts are undertaken they should be carried out in the first instance in a thoroughly intensive form, so that the test will be conclusive."

On Taking Risks

In manufacturing businesses it is sometimes good policy to accept orders in times of depression at a price that will not cover the cost, *if the full proportion of overhead charges forms part of that cost*. The overhead charges always go on, and, just because of that, a manufacturer may lose more by refusing an order at a certain price than he otherwise would. If he accepts the order the overhead expenses are distributed over the larger output. This is not an argument for cutting prices, but simply for meeting exceptional conditions.

Now, the merchant has overhead

charges just as the manufacturer has. On the same principle, therefore, a merchant may find it the better policy to sell a larger quantity of goods at a lower price, than have a certain unsaleable surplus left on his hands.

In some businesses—the drapery and other trades, for example—it is a fixed policy to buy a larger quantity of goods, where better terms can be got for the increased quantity, than will be probably sold at the highest selling price fixed, the risk taken being the expectation of selling the surplus at a "marked down" price at the end of the season. How far this may turn out to be profitable, and how far the *percentage of selling cost* may be reduced over the turnover as a whole, depends on the surplus, and the price obtainable. The principle is analogous to the differential rates at which Railway Companies carry certain classes of goods. The freight in itself, for such special articles, may be unremunerative, but as no saving, or a very trifling saving, would be effected in ordinary working expenses if the freights were refused, the net effect is that the low rates for increased freightage operates to reduce the overhead charges and is consequently a gain to the business.

VIII

THE BUYING SIDE

The buyers employed by big concerns will be experts in their particular line. The buyer who knows everything about silk—or whatever the commodity may be—as well as how, when and where to buy, will score over the buyer who knows less about it. Men possessing special knowledge in these directions are an immense asset to the management. Every employee who can speak from intimate personal knowledge and with authority on any particular matter is in continual demand. The manager, therefore, who has to appoint a buyer has no easy task. In addition to the buyer having

an expert knowledge of his merchandise and skill in buying, he must also be a man of quick judgment in forecasting the trend of affairs, including change of fashions, and foreseeing public wants and demands. Here again it is mental qualities, intuitions, and the faculty of sensing the public pulse, that count for so much.

Successful Buying

A commercial manager will require to satisfy himself as to how a buyer plans his buying, what markets, home and foreign, he is acquainted with, and that he is thoroughly up-to-date in his knowledge of market movements and competitive prices. A manager must also satisfy himself that his buyers have the necessary ability to know exactly how he stands as to stocks and to the rate of turnover. It is a failing of some buyers to yield to the temptation to buy more than can be successfully sold, when the chance comes along to buy at abnormally low prices. Care should be exercised that the limit of the customers' power of consumption is not placed too high, otherwise, no matter how cheap the purchased goods may be, they will be expensive if they cannot be sold.

"Dead stock" is the bugbear of some businesses; it may be a serious problem if not constantly dealt with. If stock unsaleable in the ordinary course of business is not cleared out promptly, it is unlikely to improve as time goes on. It should be tackled promptly, even at a sacrifice. It is a source of irritation and discouragement to all concerned, besides occupying space and locking up a certain amount of capital.

Where the principal, or commercial manager does not do the buying himself, it is desirable that all the buying should be limited to as few persons as possible, and these must be of known probity. The secret of success is the buying of goods—whether raw materials or finished products—in the right market, at the right price, and at the

right time. Buying in many cases is a very speculative proceeding, as the balance sheets of many large concerns show in times of slump or abnormal difficulties. Over caution may be as disastrous as over confidence. It all comes back, once more, to judgment and knowledge.

The Managing Director of an extensive business has very truly said, "A buyer needs courtesy and tact in buying and in interviewing the commercial traveller. It is a very great and grave danger in the case of many buyers that they do not extend quite the amount of courtesy they should towards the man who wants to sell them goods. I think that perhaps any success I personally have had as a buyer is due to the fact that I never turned down anybody's goods; I always looked at everything that a traveller, merchant, or agent might have to show me, and it is sometimes in the most extraordinary ways that one gets the very best article shown him. The buyer who does not extend that tact and courtesy to those who desire to do business with him is doing his firm a very ill-service indeed."

A buyer should be made acquainted with the gross profits he is expected to realise on his particular department. To this end he should know what are the percentage costs on turnover, for salaries, departmental expenses, losses on merchandise sold at less than normal prices, and everything else that concerns his particular province. Above all, he must keep in touch with the progress of sales, if there is to be any proper regulation of buying. The buyer must be in his own department what the manager is to the business as a whole.

Central Buying

Recent years have seen new developments in the formation of commercial trust companies, and amalgamation of interests in many directions. In particular, the retail drapery and store trade has been notable for purchasing

group control. The buying policy of these combines is concerned with the centralising and co-ordinating of the buying on the plan of the wholesale trade. Time will show to what extent this experimental policy will prove successful. That there are solid advantages is apparent; on the other hand, there are many drawbacks as an offset to the advantages. The wholesale traders play a greater part in the business of manufacturers than the drapery stores do, and naturally the wholesale trade is averse to direct relationship of manufacturers with the retail trade. The tendency will be for one set of manufacturers to cultivate their connection with the independent group of retail businesses, and another set to confine themselves mostly to the trust companies, grouped together for direct buying from manufacturers.

IX

SOME POINTS IN LAW

Commercial Law is the subject of a separate chapter in this work. Probably there are few business managers who would claim to have such an intimate knowledge of the commercial law of England as would enable them to pass an elementary examination in the subject. Nor is it necessary; the mysteries of the law can be left to trained lawyers, while ordinary prudence and knowledge may be sufficient to transact usual business transactions without the risk of serious mistakes.

It is well, nevertheless, that every person holding an executive post should know enough to prevent him doing anything in the ordinary way of business that is contrary to law. He should have some kind of working knowledge of legal principles that govern business conduct; he should in particular have a good knowledge of the formalities of contracts.

As stated elsewhere in this work, the commercial law of England is for

the most part common law; that is to say, the law which has grown up out of the customs and usages of the community, and has from time to time been confirmed by the Courts. A great deal of the great body of common law has, of course, never been formally enacted by Parliament and is, therefore, not to be found in actual Statutes of the Realm. It is the "unwritten law." Although business usage, or custom, plays a very great part in commercial law, no trade custom will be enforceable if it is contrary to some recognised legal principle, or to a Statute of the Realm.

Some Legal Maxims

Many fundamental principles of law are crystallised in "Legal Maxims." We quote the following passages on the subject of Legal Maxims from Lord Riddell's *Things That Matter* as an interesting illustration of legal principles.

Legal like other maxims are framed with the object of stating general principles in epigrammatic form. But it is one thing to lay down general principles and another to apply them to particular cases. Consequently the application of legal maxims is by no means easy. The problems usually arise, "Does the maxim apply?" and "If it does, is the case under review an exception?" The difficulty is increased by the complexity of modern life and the accumulation of a vast mass of statutes and legal decisions. A knowledge of fundamental principles is, however, essential. They are the lawyer's compass. The exigencies of the particular case may require him to take this or that course, but unless he understands first principles he will be certain to make mistakes. Many of the maxims date from the time of the Romans. Being manifestly founded on reason, public convenience, and necessity, they form part of the law of every civilised nation.

Volenti non fit injuria.

That to which a man consents cannot be considered an injury.

Note.—This is an important and far-reaching maxim, but it has its limitations. In some cases a party has no power to consent—in other words consent makes no difference. Yet generally speaking acquiescence and consent form a good defence.

For example : If a man voluntarily releases his rights he cannot afterwards enforce them, but he must not be deceived into making the release, and in most cases some consideration or a deed is necessary for the effectual giving up of a right. There is another class of case, however, in which consent and acquiescence are important factors. A man who contributes to an injury which he sustains is precluded from recovering damages from the other party to the injury. This is what is called "contributory negligence."

Qui facit per alium facit per se.

He who does anything by another does it by himself.

Note.—When four hundred years ago the Pope's cat allowed the Pope's monkey to use her paw to pull chestnuts out of the fire, she little thought that her action would be immortalised in two valuable similes. "Pulling chestnuts out of the fire" for someone else and "acting as a cat's-paw" are phrases we all use and understand. But the law does not allow the schemer to escape. If you employ an agent you are liable for what he does within the scope of his authority, and to indemnify him for the consequence, unless indeed the parties are engaged in an unlawful act. For example, if, when driving for you, your motor-driver negligently knocks someone down you are liable to the injured person. On the other hand, the agent must display the utmost good faith in his dealings with his principal. He must not make secret profits or use his position to secure advantages for himself except with the consent of his principal.

Qui tacet consentire videtur.

He who is silent appears to consent.

Note.—In popular phraseology "Silence gives consent"—but this maxim must be applied with great caution. For example : If you propose to a lady, and she says nothing, you must not assume that she consents. On the contrary, the implication is that she does not, unless the silence is accompanied by acts capable of only one construction.

Res inter alios acta alteri nocere non debet.

One person ought not to be injured by the acts of others to which he is a stranger.

Note.—This is one of the leading maxims concerning the law of evidence. A man's acts and declarations are binding upon him as evidence against himself, but it would be manifestly unjust that he should be bound by those of strangers who were not his agents.

Res judicata pro veritate accipitur.

A thing adjudicated is received as true.

Note.—When a matter has been adjudicated upon by the Court in proceedings between the same parties it is regarded as settled.

Expressio unius personæ vel rei, est exclusio alterius.

The express mention of one person or thing is the exclusion of another.

Note.—This rule states one of the first principles applicable to the construction of statutes and other documents. Special words override and control general words. To give a crude example : If a document says that Smith was killed with a sharp instrument and then goes on to say that he was killed with a hatchet, the mention of the hatchet excludes any other species of sharp instrument from consideration. But caution is necessary when dealing with this maxim, as its application depends upon the intention of the parties as discoverable upon the face of the document.

De minimis non curat lex.

Of trifles the law does not concern itself.

Note.—This rule applies to all legal matters. It is not restricted to evidence. Trifles are often important, but the law preserves a sense of proportion.

Nimiam subtilitas in jure reprobatur.

Nice and subtle distinctions are not sanctioned by law.

Note.—See the previous maxim.

In jure non remota causa, sed proxima spectatur.

In law the proximate, and not the remote, cause is to be regarded.

Note.—This is a salutary maxim. Life is made up of "one damn thing after another," and each thing hinges on some other thing like the House-that-Jack-Built. Consequently the law confines itself to the immediate cause. The person, however, who does an act is responsible for the natural and necessary consequences. For example, where the defendant threw a lighted squib into a market-house during a fair, and the squib fell upon a stall, and the stall-keeper to protect himself threw the squib upon another stall from which it was again thrown, thus blinding the plaintiff, it was decided that the person who originally threw the squib was liable for the damages sustained by the blinded man.

Injuria non præsumitur.

Injury is not to be presumed.

Note.—It must be proved.

Interpretatio talis in ambiguis semper flenda est, ut evitetur inconveniens et absurdum.

In ambiguous things such an interpretation is to be made, that what is inconvenient and absurd is to be avoided.

Note.—This requires no comment.

Nullus commodum capere potest de injuria sua propria.

No one can take advantage of his own wrong.

Note.—This maxim expresses one of the primary rules of justice. Supposing, for example, that Smith contracts with Jones to do certain work within a certain time, Jones finding the materials, and the materials are not forthcoming, Jones cannot, if the work is not completed in the stipulated time, sue Smith for breach of contract.

Verba intentioni, non e contra, debent inseruire.

Words ought to be made subservient to the intent, not contrary to it.

Note.—In construing documents the object of the Court is to ascertain the intention of the parties and to give effect to it.

Ignorantia facti excusat; ignorantia juris non excusat.

Ignorance of the fact excuses; ignorance of the law does not excuse.

Note.—In theory everyone is supposed to know the law, except children under a certain age and insane persons. On the other hand, ignorance of a material fact may excuse a party from the legal consequences of his conduct. For example, in the absence of fraud money paid with full knowledge of the facts but through ignorance of the law is not recoverable, whereas the contrary applies where money is paid in ignorance of the facts. Thus, where credit was not given in an account for a sum already paid by the plaintiff who, in mistake and in the hurry of business, paid the balance shown to be due, he was allowed to recover the amount overpaid.

Contracts

We have said that every business manager should be fairly well acquainted with the law of contracts. Serious consequences may ensue if, for instance, you proceed with a contract before it is in fact a binding contract in law. An agreement to be legally binding must be an unqualified

acceptance of a definite offer. In illustration we may quote the following passage from another article in this work.

This is most important to remember, because business men frequently fall into the mistake of supposing that by an incomplete acceptance they are entering into a contract. How often, for example, does one find in a business letter a phrase such as this: "The other terms to be settled between us later"?

It cannot be too firmly borne in mind that such a phrase vitiates the acceptance, and is indeed no acceptance at all. To reach an agreement there must be a definite offer of which no term is left undecided or indefinite, and equally a definite and decisive acceptance. This does not mean that the offer first made must be accepted in terms. As often as not, an offer which is made is not acceptable in some particular, and he to whom the offer is made says: "I will accept your offer to sell me such and such goods, but I must have a definite date for delivery," or some other qualification of that kind.

Take a case as an example:—A writes, "I beg to offer you 10 pieces of gabardine at 7s. 6d. per yard." B replies, "I accept your offer for 10 pieces of gabardine at 7s. 6d. per yard, but I must have a definite date for delivery not later than the end of November." This is not an acceptance of the offer, but a counter offer to buy the cloth at the price if delivery be given before the end of November. To complete the agreement A must reply, "I can give you delivery 5 pieces the first week in October and 5 pieces the last week in November" (or some other date). Still the agreement is not complete unless B writes back to say, "I accept your delivery dates."

Again, except in the case of contracts made by deed, every contract to be binding must be entered into for valuable consideration. A simple

contract may be made by word of mouth, or by an express act implying consent, as for example, when you enter a 'bus on the street; without more ado than entering the 'bus you agree to pay the regular fare.

Questions under this principle frequently arise where claims are made by commission agents. Suppose you have a house to sell and a house agent who knows the fact, without instructions from you, mentions it to one of his clients who comes round to see you, and buys the house. On these bare facts you would not be liable to pay a commission to the agent.

But suppose the agent sent the intending purchaser round with his card or a note so as to acquaint you with the fact of the introduction, and that the introducer was a house agent, and you accept the introduction and do business, you would be liable for commission, because you know, or ought to know, that the agent is effecting the introduction in the hope of reward; or to put it another way, he is offering and you are accepting his professional services, and if you subsequently promise him a certain sum you are bound to pay it.

Principal and Agent

Most business managers have to engage the services of agents from time to time; they ought, therefore, to have some idea of the law as it applies to principal and agent. They should know, for example, in what way the acts of any person, who may hold the position of an agent of another person for the time being, may bind the principal. In general, an agent may be appointed by writing, or by word of mouth, or there may be implied authority, as, for example, where a person who has not in fact appointed another to be his agent, but by his behaviour induces people to suppose that the other person is his agent. Thus, if you are in the habit of allowing someone to order goods in your name, or for sale, without

repudiating these acts, you will probably be liable for the transactions on the ground that you held out that person to be your agent.

Questions frequently arise also as to how far the authority of an agent extends; if commercial travellers are not intended to collect accounts as well as take orders, the principal ought to put upon his invoices, "All payments to be made direct to the firm," or some such notice. We need not pursue this subject further here as it is fully dealt with in a later volume of this work.

The Law of Sale

In the same volume, the Sale of Goods Act is summarised, a very important subject for every business manager to know something about. Amongst other matters, it deals with the law in respect to the sale, and purchase, of goods and the conditions attaching to such transactions—"warranties," sale by sample, deliveries, documents of title, rights of the buyer and the seller, and so on.

"Warranties" usually have reference to the *quality* of goods sold. Generally there is no warranty given by the seller applying to the quality or fitness of the goods; the onus is on the buyer, and he exercises his own judgment. In the absence of any warranty, or implied undertaking, that the goods have a particular quality, or fitness, the maxim *caveat emptor* applies; that phrase means, "Let every buyer look after himself."

The seller of an article is, in general, under no legal liability if he maintains silence, and allows the buyer to buy an article which the seller is aware has not got the qualities which the buyer thinks it possesses. But there are exceptions to this general rule.

"(1) Where a buyer makes known to a seller the particular purpose for which he requires the goods, so as to show that he relies on the seller's skill and judgment, and the goods are of a kind which it is the seller's business to supply (he need not also be the manufacturer of the goods),

there is an implied condition that the goods shall be reasonably fit for the purpose. But if the goods are sold under a patent or trade mark there is no implied condition as to fitness for any purpose, but simply that the trade mark or description is genuine and not a forgery. (2) Where goods are sold by *description* by a dealer in such goods, there is an implied condition that the goods shall be of *good merchantable quality* (G.M.Q.), i.e., that they can be re-sold under the description. (3) Where goods are sold by *sample* the following conditions are implied: (a) that the bulk shall correspond with the sample; (b) that the buyer shall have a reasonable opportunity of comparing the sample with the bulk; (c) that the goods shall not have any defect making them unmerchantable which is not apparent on an ordinarily reasonable examination of the sample."

In all fairs and "open markets" (Market Over) all bargains and sales of goods are binding and indisputable, and the maxim *caveat emptor* applies to all such bargains.

It is the custom with some business houses to send goods to a customer on approval, or on "sale or return." It is deemed that the customer has accepted them (1) when he signifies to the seller his acceptance of them; or (2) if the customer does not return them within a reasonable time, if no time limit is fixed (what is a reasonable time is a question of fact; it may vary according to trade custom); or (3) if the customer gives no notice of rejecting the goods, and deals with them in a manner that shows an intention of acceptance. In all these circumstances the sale stands as an absolute sale, and the price of the goods may be recovered in the usual way.

Warranty

A breach of warranty by the seller does not give the buyer the right to reject or return the goods, but it does give him a claim for damages.

A warranty is very different from a representation about the quality of the goods. The latter, even if untrue, has no effect upon the contract of sale unless it amounts to fraud. If, how-

ever, it does amount to fraud the contract is voidable. A warranty does not depend in any way upon honesty, or belief, or knowledge. If a vendor warrants his goods to have a certain quality he undertakes that they have that quality, whether he himself really believes it or not. If they do not possess the quality warranted, the seller can be made to pay compensation to the buyer, quite irrespective of any question of fraud. He cannot plead that he honestly believed in what he said but was mistaken.

An example will make the matter clear. A sells B a horse for £60, warranting the animal to be sound. B soon discovers that the horse is unsound, and considers his position in the matter. He cannot just return the horse and demand back his £60, but he can claim against A for damages due to breach of warranty. He can, therefore, sell the horse for whatever price he can get for it, and bring a claim against the vendor for the amount of his loss. Thus, if he sells the horse for £20, he can recover £40 from A.

What Warranty Implies

A warranty is said to be implied when it is not expressed in words, but is tacitly understood and is binding upon the parties by law, unless one or other of them expresses any inconsistent intention. Such implied warranties or conditions are .

- (1) The seller has a right to sell.
- (2) The buyer's quiet possession of the goods must not be interfered with, although there are exceptions to this rule in the case of a pawnbroker, for example.
- (3) The goods sold by description must correspond with such description.

Further, the usage of a particular trade may cause certain other conditions suitable to that trade to be implied.

Agreements with Employees

The subject of employment and staff agreements is also one of importance. In the case of men holding executive posts, confidential posts, very responsible positions, and also specially valuable members of the staff, written agreements should be the rule. The principal points of service agreements have been summarised under the heading of commercial travellers and agents, to which chapter the reader is referred.

On reference to what is there stated it will be seen that there is no special legal enactment that covers any particular class of agreement for personal service. In the absence of any written agreement, a dispute arising over terms of service, or dismissal, would come within the common law as it applies to master and servant.

The requirements of an agreement are that it should state the terms of the engagement and how it may be terminated; it must contain the names of the parties concerned, the duties to be performed, the terms of remuneration, and specify any other conditions that govern the engagement. The document should be properly stamped with a sixpenny stamp.

It has also been explained that no conditions embodied in any agreement are valid if they prove to be illegal or unenforceable in law; particular reference being made to such clauses as might be held to be in restraint of trade, as, for example, where an employee on leaving his service is debarred from doing a certain thing, or restrained from entering into similar employment with a rival firm. Such restrictions, in certain circumstances, if they can be held to be reasonably necessary for the protection of the interests of the employer, may be legal, and therefore enforceable. If the restraint is held to be too wide, it will be void. A restriction in certain circumstances might

be reasonable, and in another held to be unreasonable.

As has been said also, where the term of the agreement is indefinite, it will be presumed to be for a year; and if the engagement continues beyond the year it is presumed to be for another year. The fact that salary or wages are paid weekly, monthly, or quarterly, does not affect the legal presumption that the term of engagement is for a full year.

In the absence of an agreement, or where an agreement is indefinite on any point, business usage, or custom, in the particular trade will apply. To prove such usage or custom, all that has to be shown is that it is definite, that it is universal in a particular business, that it is well recognised amongst traders as a whole, or traders in a particular line of business.

Notice of Dismissal

The length of notice required to terminate an engagement for service may be either "reasonable notice" or a stated period. Unless length of notice is governed by trade custom, it should be stated in the agreement. In the absence of any express stipulation, a clerk or a commercial traveller is entitled to three months' notice of the intention of his employer to determine the contract. But this rule is not applicable to the case of clerks or other employees engaged by the week, or the month, at a salary which is payable weekly or monthly, and the contract may be terminated by a notice extending over one, or other, of these two periods.

Where a "reasonable notice" has to be given before terminating an engagement, the notice may be made at any time. An engagement extending over a whole year can only be ended by "reasonable notice" terminating at the end of the year. Where the engagement was for a definite time, the contract ends automatically at the conclusion of the

period, and no notice is required on either side.

A firm is entitled to dismiss a manager without notice, if it can be proved that he has taken a secret commission. An employee may be dismissed at any moment, and without notice, for wilful disobedience to properly given instructions, drunkenness, dishonesty, gross negligence, immoral conduct, and absolute incompetence. He may be dismissed for permanent disablement, either mental or physical, through illness, conduct incompatible with his duties, or the fraudulent concealment at the time of his engagement of any fact which was material to the contract. An employee who is dismissed without notice, on justifiable grounds, has no claim for wages after the last date previous to his dismissal at which the wages or salary became due.

No legal obligation is laid on the employer to state at the time of the dismissal his reasons for terminating the contract, but in the event of the servant raising an action for wrongful dismissal it will be necessary to satisfy the Court that there were sufficient grounds for determining the hiring. An employer, when dismissing a servant for misconduct, may do so in the presence of a third person without rendering himself liable to an action for slander. In certain cases it may be advisable to ensure that a witness is present who can testify as to what actually took place. Where there are partners in a business, each partner has implied authority to engage and dismiss employees, but no employee can be dismissed if the other partners withhold their consent to it.

The case of servants paid by the day, or the hour, is in a different position, provided that no definite period has been fixed for the termination of the hiring. The wages become due at the end of each day, or each hour, but the practice is to make such payments weekly or fortnightly. When payment is made by the job, a work-

man is only entitled to receive his remuneration on the completion of the work which he contracted to turn out. Where the work is not completed an employer is entitled, under certain circumstances, to refuse payment.

The wages of a person engaged in any form of manual labour must, in accordance with the provisions of the Truck Act, be paid in coin or other legal tender, except in cases where the workman consents to waive his rights. No deductions can be made for bad or negligent work, unless the contract contains a clause to this effect. It is also illegal to deduct fines, unless particulars of all acts which render an employee liable to deductions are stated in a notice displayed on the premises in a position where it can be easily seen, read and copied.

A contract between employer and servant may be ended by mutual consent, and it is automatically terminated by the death of either of the parties, the wages in the latter case being payable up to the date of death. An engagement with a firm which is not a Limited Liability Company is broken by the death of any of the partners in the concern.

Where a firm is voluntarily dissolved, the act constitutes a breach of contract with its employees, who are entitled to full wages in lieu of notice. Where, however, the firm undergoes reconstruction, and offers to employ its servants on terms equivalent to those given under the former conditions, an employee who refuses to accept service is still entitled to damages, but these are only of a nominal character.

Giving a Character

There is no legal obligation on an employer to furnish a character to a servant who leaves his employment, or who has been dismissed. If made in writing, or orally, and communicated only to the person who is interested in employing the servant, it is privi-

leged. Where the communication is made by telegram or on a postcard, which is open to being read, it ceases to be privileged. Good faith is the essential thing in any circumstances; there must, of course, be no malicious derogatory statements. Nor must any laudatory character be given if the person giving it knows it to be false. If a false character is given and induces another person to employ a man or woman and that person suffers in consequence, the person giving the character may be liable in damages.

The Law of Fraud

Another subject of which the general manager should have a working knowledge is the law of fraud, for fraud is always a reason for the avoidance of a contract. It has also a distinct bearing on the bankruptcy laws, and the laws dealing with public companies, both of which subjects are discussed elsewhere.

Fraud is described as a false representation of facts, made with a knowledge of its falsehood, or recklessly without any belief in its truth, and with the intention that such representation should be acted on by the party defrauded and actually inducing him to act upon it. But fraud does not of itself render a contract void. There can be no fraud in the legal sense unless there is dishonest intention or moral fraud, and an honest belief in the truth of a statement, even if such belief is unfounded, is a good defence to a charge of fraud.

Fraud, however, is a wrong in itself, quite apart from any question of contract. If a person makes a false statement knowing it to be false, in order to induce another person to act upon it, and if that other person does act upon it and is injured by acting thus, he has a right to damages against the person making the statement. For instance, if A writes to B stating, in order to induce B to give credit to C, that C is quite solvent—when as a matter of fact he knows

that C is insolvent—A is guilty of fraud. If B, having believed this false statement and acted on it by giving credit to C, suffers loss in consequence, he has a right to recover damages from A, although there was no contract between A and B.

Contracts Obtained by Fraud

If fraud is used in order to induce a person to make a contract, that person is not bound by the contract, for it is clear that consent obtained by deceit is not really consent. In a case of this kind, however, the contract is not *void*, although it is *voidable*. The person wronged has the alternative of holding the other party to the agreement and recovering damages from him for any loss he may have suffered owing to the fraud. The party who was responsible for the fraud must accept whichever alternative is offered to him.

It should be noticed, however, that when once the person deceived, having acquired full knowledge of the fraud, acts in such a way as to treat the contract as still binding, he cannot afterwards repudiate it; he must abide by his first decision. His remedy is the right to compensation for any loss he has sustained.

What is Fraud?

To constitute fraud a representation must, as a general rule, be a false statement about an actual matter of fact. A statement about future intention will not usually be regarded as fraud by the courts, the reason being that it is difficult to prove the existence of intention, which is the essence of the case. A change of intention after the representation does not make the representation false. The existence of intention, however, may be a matter of fact. If a person induces another to make a contract by a statement of future intention and it can be shown that in fact the intention was a different one, the statement is fraudulent.

An example will elucidate this point. The directors of a public company issue a prospectus inviting the public to buy the debentures of that company. Therein they state that the money obtained by this sale will be used for the purpose of buying additional plant and enlarging the premises. As a matter of fact they have already decided to use the money to pay off the company's existing debts. They are thus guilty of fraud.

However, to prove fraud in connection with a company prospectus is by no means an easy proceeding, although there may be statements therein which are false, or at least misleading. Any person who is a party to the issuing of a prospectus inviting the public to subscribe for shares in a company is liable, it is true, to pay compensation to any person who takes shares on the strength of any untrue statement in the prospectus, and in consequence suffers loss. But he can free himself from the charge by showing that he had reasonable ground to believe, and did in fact believe, that the statement was true, or that the untrue statement was made on the authority of the report of an engineer, valuer, accountant or other expert who was considered, on reasonable grounds, as competent to make such a report. He who alleges the fraud must, as a rule, prove the fraud.

The Commission of Fraud

Fraud can be committed in many ways. It can be in writing, it can be spoken, or it can be merely in conduct. In fact it can be in any manner by which a false impression can be conveyed; but, it is important to note, a charge of fraud will not lie against a person for withholding material facts.

The exceptions to this rule are, however, worthy of note. In certain classes of contract the parties are presumed to deal with one another

on terms of mutual confidence and in such the mere non-disclosure of material facts may amount to fraud. Instances are contracts of suretyship and of insurance. In a contract of suretyship, if the creditor and the debtor hide from the surety any fact that goes to show that the surety is undertaking a greater risk than he knew, he is not bound by the contract.

Again, in a contract of insurance the person insured is bound to tell everything within his knowledge, or which he has reason to believe is not within the knowledge of the other party, that goes to increase the risk. The concealment of any material fact makes any contract of insurance, whether life, fire, marine, accident, or any other, voidable at the option of the insurer. Again, suppose a party to a contract has made a statement which, at the time of making, he believed to be true, but which afterwards he finds out was false. In these circumstances he is bound to disclose to the other party the fact that the statement was false. If he does not make such a disclosure, but allows the other party to act as if his original statement were true, he is guilty of fraud.

Another possible case of fraud is when a person carelessly makes an untrue statement under such circumstances that, if reasonable care had been taken by him, he would have known it to be untrue. This is evidence of fraud, but it does not necessarily amount to fraud. If the person making the statement honestly believed the statement to be true, however unfounded his belief was, he is not guilty of fraud.

The difficulty of proving fraud is evident very often in trade circles where many persons, anxious to sell their wares, indulge in a good deal of exaggeration about their merits. It is usually very difficult to draw the line between such exaggerated statements and actual fraud. Each case depends upon its own relevant facts.

The business man should not be readily deceived by the tricks of the trade, for he cannot successfully bring a charge of fraud unless he shows that he has really believed the statements made to him and incurred loss by acting upon them.

FORM OF AGREEMENT FOR MANAGER

An Agreement made this the
day of , One Thousand
Nine Hundred and
BETWEEN SMITH AND SMITH
LIMITED whose Registered Office is
situate at Colebrook Street in the
County of London (hereinafter called
"the Company") of the one part
AND JOSEPH SAMPSON of Park
House, Crouch End in the County of
Middlesex of the other part WHERE-
BY IT IS AGREED AS FOLLOWS:—

1. FOR A PERIOD OF FIVE YEARS
from the First Day of January One Thou-
sand Nine Hundred and Twenty-seven the
said Joseph Sampson shall act as General
Manager of the said Company and shall
give his whole time to the management and
superintendence of the business of the said
Company and shall not engage in any other
business or occupation, and the said Joseph
Sampson shall act in accordance with the
instructions from time to time given to
him by the Managing Director of the
Company.

2. THE SAID JOSEPH SAMPSON
shall be just and faithful to the Company
in all things and shall preserve the Com-
pany's secrets.

3. THE SAID JOSEPH SAMPSON
shall not except in pursuance of a resolution
of the Board pledge the said Company's
credit for any sum exceeding One Thousand
Pounds in any one transaction.

4. THE COMPANY shall pay to the
said Joseph Sampson a salary of
Pounds per annum payable
monthly on the first day of each month
and if during the continuance of this
Agreement in any year commencing on the

First Day of January the net profits of the
Company exceed

Pounds (after providing the reserves appro-
priated in the balance sheet and profit and
loss account for the year, deducting bad
debts and depreciation of buildings and
plant, such net profits to be certified by
the Company's Auditors, such particulars
to be final and binding) the Company shall
pay to the said Joseph Sampson by way of
extra remuneration an additional sum of
Five Per Cent of the amount by which such
profits exceed the sum of

Pounds, such extra remuneration to be paid
within twenty-one days after the publica-
tion of the said balance sheet in each year.

5. THE SAID COMPANY shall pay to
the said Joseph Sampson his reasonable
hotel and travelling expenses when he is
travelling on the Company's business.

6. IF THE SAID JOSEPH SAMPSON
shall be guilty of any wilful act of mis-
conduct in the course of his employment,
or if he shall become bankrupt or com-
pound with his creditors the Company
may by notice in writing determine this
Agreement.

7. IF THE SAID JOSEPH SAMPSON
shall be unfit for a consecutive period of six
calendar months to perform his duties
owing to illness the Company may by notice
in writing determine this Agreement.

8. THE COMPANY shall indemnify the
said Joseph Sampson against all liabilities
incurred in the performance of his duties.

9. IF OWING to some act or default on
the part of the said Joseph Sampson he
shall leave the Company's service before
the expiration of the period of Five Years
mentioned in Clause I hereof, the said
Joseph Sampson shall not either directly
or indirectly for a period of Five Years
from the First Day of January Nineteen
Hundred and Twenty-seven engage or be
concerned in a similar business in England
or Wales. The said business engaged in
by the Company being of a specialised
nature, the parties hereto hereby declare
and admit that this clause is necessary
for the protection of the Company.

IN WITNESS whereof the Company has
caused its Common Seal to be hereunder
affixed and the said Joseph Sampson has
hereunto set his hand and seal the day and
year first above written.

CHAPTER III

BRITISH EXPORT TRADE

Past and Present Position of British Export Trade—The Balfour Committee Report—Openings for New and Increased Business—Various Modern Selling Methods Explained—The Different Kinds of Agencies—Direct Selling—Export Merchants and Shipping Houses—The Routine of Export Trade Explained—The Finance of Foreign Trade.

I

INTRODUCTORY

A COMMITTEE was appointed by the Government in 1924 to enquire into the conditions and prospects of British commerce, with special reference to the export trade. Sir Arthur Balfour, K.B.E., was the chairman of this body, which is known as the Balfour Committee. The first report was issued in 1925. It is mostly concerned with the main features and the prospects of British trade in overseas markets.

The facts and figures that are given, and the conclusions presented in this report are based on information received from overseas markets, supplemented by other material available in Government Departments. In view of the great range of the enquiries made, and the conclusions arrived at, it is deserving of study by everyone who is interested in the subject and this does not mean business men alone.

Survey of Export Markets

The problem of ascertaining exact comparative figures is difficult. There have been great and abnormal changes in the prices of commodities as a result of the War; there have been also violent fluctuations in the gold values of the world's currencies. Other factors are connected with both internal and external conditions. The

problem, therefore, is one of some complexity, for adjustments in respect of all these changes have to be taken into account.

The broad conclusions of the Committee are, nevertheless, sufficient for practical purposes. As compared with pre-war days, there has been a considerable shrinkage in the real volume of the world's foreign trade, "and it is further evident that the increased percentage of the world's trade which appears from the figures to fall to our share masks a real falling off in the total volume of goods exported from Great Britain."

In 1924 the volume of British exports was 75.5 per cent. of the 1913 volume, after the adjustments mentioned have been taken into account. There are other allowances mentioned by the Committee, that might also be taken into account, which would modify the figure given and bring the 1924 exports to something like 80 per cent. of the 1913 volume.

It would appear that there has been a considerable excess in the rise of the price level of exports, compared with that of imports. "The apprehensions which are widely entertained that a material factor in checking the recovery and expansion of the volume of our overseas trade is the great increase in productive and distributive costs, reflected in an abnormal increase of selling price," is confirmed.

The report proceeds to survey in

detail the respective overseas markets, and particular classes of goods, with the object of measuring the relative importance of each of the contributing factors; and to separate those factors which are in their nature permanent and irremovable from those which are transitory, or capable of control.

"If it could be said that British trade is not only holding its own in comparison with that of other countries, but is sufficient in volume to provide full employment for the population of the United Kingdom, we might regard the fluctuations of particular overseas markets with comparative complacency, except in so far as a serious falling off in any particular market might be an index of some future danger to the maintenance of our general trade position. Given that we were exporting up to the limit of our producing capacity, changes in the local distribution of our exports would be a matter of secondary interest from a national point of view.

"That this comfortable position is far from having been reached is plainly shown, not only by the statistical indications of the deficiency in the volume of our exports compared with pre-war times, but also by the large number of workpeople in the United Kingdom unable to obtain employment."¹

The falling off in British exports to particular markets is due to a combination of causes. For example, three reasons are assigned for the decline in exports of British cotton piece goods to India. The falling off between the pre-war year of 1913, and 1923, equalled no less than 57 per cent.

An examination of available data is "sufficient to enable a rough calculation to be made of the relative extent to which the decline of consumption, increase of home production, and keener foreign competition

have contributed to the aggregate decrease of British exports of cotton piece goods to India. The result is to show that, in this particular case, about three-fifths of the total decline is to be attributed to diminished consumption, about a quarter to increased local production, and about one-seventh to increased foreign competition."

Instances of other classes of exports to different countries indicate that in some cases the predominant cause of the falling off in exports is an increase in local production in overseas countries; in other cases it is a decline of local consumption; and in others the competition of imports from other than British sources.

II

BRITAIN'S NEEDS

There never was a time in the history of our country when the need to increase our export trade was more necessary. There never was a time when it was more needful to watch the tendencies and developments of foreign competing markets. There never was a time either when it was more necessary to examine our manufacturing our selling methods and distributing organisation, our efficiency, our means and capacity for developing British overseas trade and indeed everything that can possibly affect this vital problem.

These things are bound up with large-scale production, the efficiency of plant and equipment, cheaper transport, and, of course, productive costs. In the matter of competition, British firms may be handicapped by the conditions of wages and working hours as compared with those of other countries.

More than most countries, Great Britain depends upon the maintaining of her export trade to pay for a large

¹ *The Survey of Overseas Markets*, Part I of the Balfour Committee Report. Published by His Majesty's Stationery Office.

proportion of her food, and of the raw material which of necessity she has to buy abroad for her manufactures, as well as for many finished goods which she imports.

England is the most densely populated of any of the principal countries of the world and is totally unable to produce within her own area sufficient food for home consumption, whether of grain, meat, dairy produce, or fruit. Large imports of all these are necessary for her daily sustenance; and with the improvements in refrigerating plant on train and ship-board, their importation has grown easier, and the incentive to produce the utmost possible at home has correspondingly grown weaker, so that the volume of foodstuffs purchased from abroad is rapidly increasing.

Great Britain is also pre-eminently a manufacturing country, nearly three-quarters of her population being congregated in seven large industrial areas, where their basic occupation is the conversion of raw materials into finished goods. For the most part these raw materials have also to be purchased from abroad. For all these purchases her annual indebtedness to foreign countries has risen to enormous figures.

Paying for Imports

There are four chief means by which the bill for these huge purchases is liquidated. Goods are received from overseas against

The actual exportation of gold and bullion,

The interest due on British investments in foreign lands,

The payments due from foreign countries for shipping freights on British vessels, and what are known as invisible exports such as insurance, banking transactions and other services; and most of all, against

The export of British manufactured articles.

Great Britain, in a word, depends for her existence on what she sells to the world. We must sell if we would live. That is clear.

But in addition, it is the fact that if our factories are to be fully employed they will only continue to be so by maintaining our export trade; the reason for this being that our limited home market is insufficient to consume a very large proportion of the things we produce. Our own consuming population is too small to assimilate all we can make.

Put in another way, our population is too large if, for means of livelihood, our factories have to depend on articles to be consumed by ourselves. To provide employment for the population, therefore, we are again dependent on our export trade.

Again, the export trade is not to be considered as a thing apart from home trade; the two are inextricably mixed up, because large-scale production means production for both markets, and large-scale production is cheap production, whether the products are marketed at home or abroad.

III

FACTORS THAT OPERATE

We quote the following passage from *The Survey of Overseas Markets* issued by the Committee on Industry and Trade and already mentioned.

"Taking the world as a whole, the widespread development of home manufactures [in individual countries] to meet needs formerly supplied by imported goods, is, by general consent, one of the outstanding features of the post-war economic situation. And this is perhaps the most important permanent factor tending either to limit the volume, or to modify the character, of British export trade.

"In part, this tendency is a natural and universal one, inseparable from healthy economic progress, and dating

from a period long before the war; but undoubtedly the tendency has been stimulated by war conditions and necessities.

"The cutting off of usual sources of supply, and the abnormal demand for certain classes of products for war purposes, compelled many countries, including Great Britain, to embark on the manufacture of goods in respect of which they had hitherto been dependent on import.

"Hence, when the return of peace conditions led to the demobilisation of war industries, there was in many countries an effort to preserve certain of the industries which had been established or greatly expanded during the war—an effort based either on reasons of national security or vital interest, or on more general grounds of commercial policy.

"Not only had local vested interests grown up during the abnormal period of interrupted intercourse, which naturally clamoured for support, but not infrequently industries improvised under pressure of the emergency were found to have struck root and to show capacity for permanent maintenance and growth, with or without the shelter of a tariff or other safeguard.

"Naturally, the progress of industrial demobilisation during the last few years has had the effect of destroying or greatly curtailing a large number of emergency industries throughout the world, which were wholly or mainly devoted to supply war shortages and which could never expect to be self-supporting under peace conditions.

"Many examples of this phenomenon will be found in the surveys of different markets which are contained in the present volume. Only a few illustrations can be given here.

Changed Conditions

"In several British Dominions the tendency to foster local manufacture of goods has undoubtedly been strengthened by the experience of

war. In Canada there has been a remarkable growth of manufactures; while in Australia great efforts are being made to develop industries, and in particular the woollen manufacture.

"In India, which previously depended on importation for most kinds of industrial products, the war called into being a number of industries to supply the gap caused by the cutting off of the former sources of supply. The movement towards industrialisation has since been reinforced by nationalistic sentiment and fostered in various ways by governmental action; and, whatever set-backs it may receive in the future, the tendency to develop home industries has undoubtedly come to stay.

"In South America, Brazil has developed a number of industries (including textiles and boots and shoes), the annual value of the products being estimated in the *Survey* at forty-five million pounds.

"In Argentina the volume of industrial production is estimated to be from two to three times the pre-war output. In Chile it is stated that 'in almost every branch of industry attempts are being made, usually with success, to produce in the country goods that have hitherto been imported.' Among the examples mentioned are cement, where the growth of the local industry has reduced imports from 144,000 tons to 34,000 tons, and wire nails, the imports of which are now entirely displaced by home manufactures.

"The growth of lignite production in Germany and the development of hydro-electric power have both tended to displace coal formerly imported into certain markets.

"It is impossible, in the absence of general production statistics, to estimate the total increase of manufacturing industries which has taken place since the beginning of the war in countries in which such manufacture had previously been comparatively undeveloped, but the general tendency may be illustrated

by the following figures with regard to certain industries and countries.

"The number of cotton spindles in Japan, China, India and Brazil in 1913 was about 10 millions; by 1924 the number had risen to nearly 18 millions. Between 1913 and 1922 the number of cotton power looms in India and Japan rose from 120,000 to 200,000. The annual production of steel just before the war in Japan, China, India and Australia was 360,000 tons. In 1922 it was 858,000 tons.

"Although in individual cases industries artificially encouraged may fail, it is impossible to expect that the general tendency towards the growth of local manufacture will be reversed or slow down, inasmuch as it is based on the inevitable desire of progressive countries to achieve some degree of diversification in their industries, and not to remain entirely dependent on the production of food and raw materials.

The Effect of these Changes

"The most obvious and immediate effect on British trade, and on international trade in general, is, of course, a restrictive one. Goods that formerly found a ready sale in a particular market are now wholly or partially excluded by the competition of the locally produced article under the protection of an import tariff.

"If this were the whole story, the future of British overseas trade would indeed be a gloomy one. But there are certain partial compensations which may in the long run be of great importance to British traders, provided always that their methods and organisation are sufficiently flexible to be capable of adaptation to new and varying conditions.

"In the first place, the new local manufactures are, generally speaking, concerned at the outset with the simpler and coarser classes of goods, and the immediate result is not only to restrict international commerce, but to drive it more and more on to

the finer qualities of manufacture. We have already called attention to this factor as affecting the valuation of British exports, and there is little doubt that it has had an appreciable, though probably less marked, influence on the scale of values of manufactures exported by our chief competitors.

"It follows that, while the total volume of international trade open to competition may be diminished, there is a probability that an increased share of what remains will be captured by the exporting country most capable of adapting its production to special qualities of goods.

"At present we find that the reputation of this country in most markets for quality of goods stands high compared with that of its competitors. The difficulties met with by British trade in competition with other export countries arise much more from questions of comparative cost than of comparative quality. Any tendency for competition to develop on the basis of quality should, therefore, *prima facie* be beneficial to us, if, under the head of quality, we include all that makes an article suitable to its purpose and attractive to the intended purchaser, and do not merely measure it by the standard of what is, or has been in the past, most approved in the country.

"It is, of course, unlikely that any compensation of the kind indicated above would of itself be sufficient to counterbalance the decline in external demand for the commoner grade of goods.

"The second compensation is more indirect and distant, but may nevertheless be very important in the long run. New industries create new wants for plants and material, and, though this demand cannot of itself be sufficient to counterbalance the loss of the market for the goods themselves, we have also to take into account the demand resulting from the increased purchasing power of those for whom the local industries provide employ-

ment. Part of this purchasing power will almost inevitably be expended, directly or indirectly, on foreign goods.

"Whether or not the product of the new industries is itself exported, it tends as a rule to give rise in the long run to a new demand for imports, either on the part of the same or of some other country. For example, concurrently with the development of a huge manufacturing power in the United States, the growth of export of wheat and meat from that country has been checked, owing to the increased home demand and the faster growth of the industrial than of the agricultural population.

Outstanding Features

"The effects of the whole development on international trade have, of course, been very complex, but there are two outstanding features. First, the great increase of wealth derived from industry has given rise to a luxury demand almost irrespective of price, which enables certain classes of high grade British goods to surmount the present high tariff walls.

"Secondly, the slowing down of U.S.A. exports of wheat and meat has stimulated the growth of export of these foodstuffs from British Dominions and South America, and thus helped to maintain the demand of those countries for manufactures in which British goods predominate.

"A consideration of cardinal importance in this connection is that the capacity of overseas markets to absorb imports of manufactured goods is strictly limited by the outlets which are available for the exports of their local produce.

"Conversely, Great Britain's capacity to absorb imports of food and raw materials is conditioned by its ability to find markets for its manufactures. Although, under modern conditions of trade, it does not necessarily follow that the countries which buy the produce of overseas countries will export an equivalent amount of goods directly to the same markets, it is

clear that, other things being equal, a country like Great Britain, which is one of the greatest consumers of imported materials and foodstuffs, must be in a relatively strong position for securing a full share of the export of manufactures by which payment for these materials and foodstuffs is made.

"To the individual trader, who has habitually exported a particular class of goods to a particular market, and to all those who have specialised in the production of these goods, it may appear somewhat cold comfort to be reminded that the loss of this market may, in the long run, be offset by fresh developments of trade in other articles to other markets, from which they personally are by no means certain to benefit.

"It is only when the problem is looked at broadly from a national point of view that the importance of the compensations is fully apparent; but, even from this point of view, the temporary loss and suffering entailed by industrial transition must not be lost sight of.

Practical Lessons

"The practical lessons to be drawn by the trading community from the surveys of overseas markets are plain. The widespread growth of local manufacture has come to stay, and is likely to develop. It does not necessarily follow that international trade as a whole will shrink, but its local distribution will necessarily be affected. Concurrently with this geographical re-arrangement, there will probably be a continuous trend or shift towards the importation of the higher qualities or more distinctive classes of goods. This double re-adjustment is bound to make great and increasing demands on the foresight, intelligence and adaptability of those concerned in overseas export trade, and the future of British commerce will depend in no small degree on the capacity of British manufacturers and traders to understand and react to these changing conditions.

"While the continuance of the present tendency to develop national manufactures must be taken for granted, British traders are deeply interested in the character of the measures by which that development is sought to be obtained. Broadly speaking there are four classes of measures by which different countries endeavour to give an advantage to the products of home industry as compared with imported goods :

- (a) Customs tariffs,
- (b) prohibitions or restrictions, with or without a system of licences,
- (c) special privileges, concessions, or subsidies to local industry,
- (d) State control or monopoly."

We have reproduced the foregoing passages, practically in full, from the Balfour Committee report, because of their interest and importance. Further reference to it is made on subsequent pages of this chapter.

IV

THE NEED FOR NEW MARKETS AND HOW THEY ARE TO BE GOT

Great Britain is the pioneer exporting country. She still enjoys many of the advantages of the long experience of her merchants and their wide connections overseas; from the ubiquity and efficiency of her merchant marine; from the fact that London is the home and centre of the world's marine insurance; from her world-wide banking system, and, partly, from the sentimental ties and merited repute which give her goods a preference in the markets of the Empire.

The pioneering days may be said to be over; the problem now for British exporters, in the face of increasing competition, is how to hold their position by initiative effort, by adaptability, by discarding every hampering method arising out of her past supremacy. New needs call for a new spirit and new methods, renewed zeal and an enterprising policy.

An open eye should be kept for

fresh developments of trade; in this respect some of the smaller countries offer great opportunities. Such is Ceylon, for example, and the Malaya States, both of which are rapidly developing, and India still offers prospective opportunities.

"Canada," we are told by the Balfour Committee, "will not buy from Britain on the score of quality only. It must be quality plus suitability, and reasonably prompt availability.

"Styles, standards, usage and advertising, common to Canada and the U.S.A., differ in very many instances from those prevailing in the United Kingdom. Quality alone, no matter how strong the sentiment may be, will not overcome an unsuitable style, bad packing or delay in delivery.

"Another factor affecting British exports to Canada is the latter's rapid progress in the production of fully manufactured goods suitable for the home market.

"For instance, the large volume of goods of American styles on the Canadian market is not by any means supplied entirely by factories in the U.S.A. Canadian branch factories of U.S.A. firms contribute a very large proportion of the manufactured goods needed by the Dominion. The number of such establishments exceeds 700 and is sometimes placed as high as 1,000.

"Importers in the Dominion of Canada expect a manufacturer or merchant exporter, desiring a share of their orders, to make business free from irritation and to offer a service at least comparable with that usual in North America. Canadian imports of fully manufactured goods are to-day approximately worth \$500,000,000 per annum, and goods partly manufactured account for about \$80,000,000. Of a total of \$580,000,000 for fully and partly manufactured goods purchased by the Dominion, the United Kingdom secures only 22 per cent., despite a substantial preferential duty on nearly everything imported. It is thus obvious that the existing trade

is not only large enough to make it worth while, but that the United Kingdom does not secure nearly as much as she should.

American Methods

"The sale of goods by the method of appointing agents on commission is the policy adopted generally by United Kingdom firms in the Canadian market. While this arrangement is moderately successful, there is no doubt that it places British goods at a disadvantage compared with United States products in competing classes.

"U.S.A. firms not only employ agents on commission; they also establish branch warehouses, where stocks are kept and can be supplied at once. This is particularly necessary, for example, in machinery of every kind, so that spare parts may be readily available.

"British goods have to compete, therefore, with U.S.A. firms carrying stocks on the spot, and, in addition, with their agents on commission. At certain strategic points, such as Toronto and Vancouver, a letter posted to the nearest U.S.A. centre—Buffalo in the case of Toronto and Seattle in the case of Vancouver—is delivered on the following day and goods can be shipped on receipt of the order. This alone is instrumental in marketing large quantities of goods irrespective of price and quality.

"The proximity of the large market of the United States enables that country to trade with Canada at an advantage over the more distant British market, notwithstanding the tariff preference granted to the latter. The British exporter has two cheap ocean routes to Canada, one to Montreal and the other through the Panama Canal to Vancouver, but the element of time can be overcome only by the carrying of stocks in the country.

"Unreliability in delivery, or the time taken to fill an order, are two of the most difficult matters requiring

solution if British trade to Canada is to expand. The fact that the goods have to be transported some thousands of miles by sea, and often enormous distances by rail as well, does not impress the Canadian importer. He knows that most of his regular needs can be filled by Canadian or U.S.A. factories distant from one to five days' rail journey. The proximity of the factory also means, in practice, that the Canadian merchant has so much less money tied up in stock.

"In nearly all the large Canadian cities many Canadian manufacturers carry stocks in their own warehouses for prompt delivery to the local trade, including electrical goods (wire, cable, apparatus and household appliances), the smaller engineering articles, saws (for mill and household use), collars, shirts, boot polishes, paints, aluminium ware and other household utensils, bags and trunks, and many others.

"Local merchants are thus enabled to secure such supplies at a moment's notice, and are not vitally interested in other sources of supply from which delivery is a matter of months.

"It is possible for United Kingdom exporters to meet and overcome to a very large extent the difficulties to which reference has been made."

Where Great Britain has Regained her Trade

The fortune of British exporters in regaining their position in competitive overseas markets since the war has been very varied, and much still remains to be done.

As regards South Africa, for example, Great Britain "has almost maintained her position as the chief source of supply of South Africa's imports, contributing 52 per cent. in 1923 of the total, as against 54 per cent. in 1913."

British exporters have regained much of the ground lost in Argentina. Our total exports, however, are less by 7 per cent. than in 1913, while those of the United States are up by 6 per cent.

India's imports of cotton yarns from the United Kingdom in 1923-24 were 21,790,000 lbs., compared with 37,836,000 lbs. in 1913-14. Piece goods imports from the United Kingdom showed an 8 per cent. reduction since pre-war days; the imports of India from Japan in the same period showed a corresponding increase.

Piece goods are amongst the most important imports of India from the United Kingdom, and in this market India is our chief customer. Our chief competitors of late years have been Japan and the United States. We have a considerable trade with India in iron and steel and an increasing trade in machinery for her textile industries. Nearly 50 per cent. of the trade of the United Kingdom with India is in textile goods; we have the biggest share in woollen manufactures.

The Importance of India

An authority on this subject has said, "Though England is well to the fore in her exports to India, this class of import into India may be viewed with mixed feelings, for there is no reason to doubt that India, in course of time, will develop manufacturing centres in which the jute, cotton, wool and other raw produce raised in India will be turned into the finished product, and in proportion to the increase in her capacity to manufacture for her own internal requirements, so must the demand for England's piece goods and the like diminish."

The Indian market merits the closest attention of British traders. We, therefore, quote the following further passage from "The Finance of Foreign Trade," by William F. Spalding, who concludes one of his chapters with some remarks on this subject taken from an Indian paper, *The Pioneer*, of 19th October, 1925:—

"Although the Indian market for imported goods is an enormous one, it is doubtful whether its extent and potentialities are so fully realized by manufacturers as they ought to be.

Notwithstanding trade depression and the slackness in purchases resulting from high prices, India imported goods by sea in the year 1924-25 to the value of £185,000,000, of which the share of the United Kingdom, in round figures, was something like £100,000,000.

"That India offers a great field for cotton manufactures is known to all. But her market absorbs an infinite number of imported articles, ranging from machinery, railway plant, agricultural implements and motor cars, to the medicines, soaps, and a vast variety of other goods which are sold, not only in European shops but in the Indian bazaars. The bazaar trade is rapidly expanding, since the use of imported articles of many descriptions is increasing among the Indian population.

"What is of intense interest at the present time is the vast possibilities of Indian agriculture. Although, in the aggregate, imports from abroad represent many millions in value, the average purchasing power of the people is low. But a small increase per head in that purchasing power will inevitably bring about a larger demand for imported goods, and it is here, from the point of view of the supplier of the Indian market, that the decision announced by the Secretary of State and the Viceroy in regard to agricultural development assumes immense importance. . . . It is recognized by competent authorities that the addition of many millions of pounds to the annual agricultural output can readily be accomplished if the efforts now being made by the Agricultural Departments are extended on sound lines, and there is no question as to the results that can be achieved.

"Another branch of the activities of the Agricultural Departments is the breeding of cattle. The indigenous cattle of India are of very poor quality, and millions of cultivators are debarred from using modern ploughs as their animals are not strong

enough to draw them. The Agricultural Departments are therefore striving to produce good draught bullocks."

As *The Pioneer* further says, the increase of the wealth of the cultivating classes, when the better class animals take the place of the present inferior types, will be enormous, as it is estimated that at the present time there are about 150,000,000 bovine cattle in India. The demand for modern ploughs would rapidly increase if strong draught animals were available instead of the weak cattle now in general use. The men who are in closest touch with agriculture are most optimistic about the future.

In a speech at Simla, Lord Reading declared that: "As I grow older in my service to India, as I learn to understand her problems, as I perceive more keenly the anxieties of India, I come more and more to the conclusion, aided and assisted by those who have the knowledge and experience, that the great industry of India to which India must look for her regeneration is her agriculture; and we must do all we can to further it."

The population of British India is 247,000,000, and of India, including the States, 319,000,000. It is not difficult to realize the increase that will be effected in the demand for imported goods as the standard of living of this great population improves. Some of Great Britain's competitors have no illusions on this point, and are straining every nerve

to secure a strong commercial foothold in the Indian market.

Exports to Australia

In the case of Australia, British exporters have fared better in late years than in some other markets; the percentage of British domestic exports taken by Australia was greater in 1925 than was the pre-war figure of 1913.

The true test, however, is to compare the British share of Australia's competitive imports with that of other countries. Competitive imports exclude those which are of a kind not manufactured or produced in the United Kingdom. On this basis our proportion of Australian trade as compared with the pre-war year of 1913 is as follows:

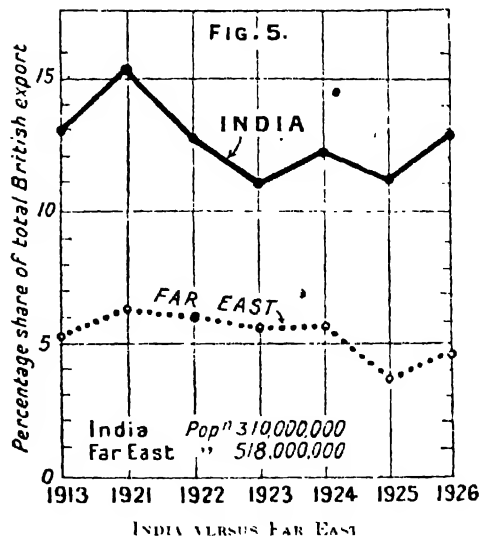
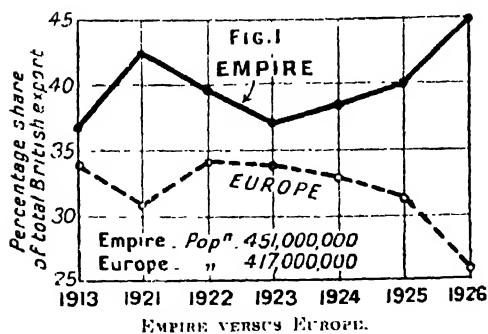
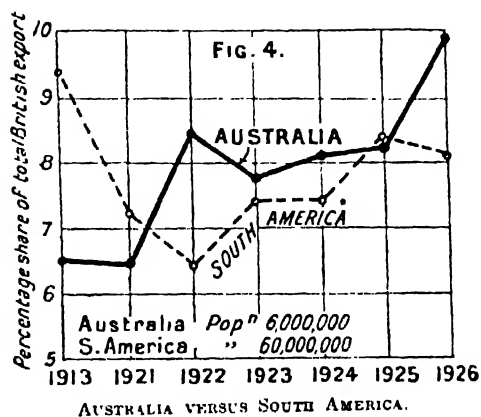
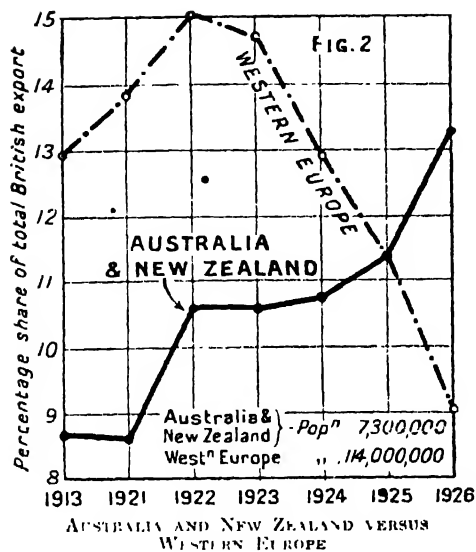
| | 1913. | 1923. |
|-----------------|-------|-------|
| | % | % |
| British Empire | 63.2 | 60.4 |
| U.S.A. | 11.8 | 17.2 |
| Germany | 11.4 | 22.4 |
| Other Countries | 13.6 | |

British trade thus shows a falling off, while America's shows a considerable increase.

Australia is the United Kingdom's second best market. (The best is India.) The total imports into Australia in the year ended June 30, 1925, amounted to £157,143,296. The following statement shows the imports from the chief supplying countries in the years 1923 to 1925.

| c | 1922-23. | | 1923-24. | | 1924-25. | |
|-----------------|-------------|----------------|-------------|----------------|-------------|----------------|
| | Value. | Total imports. | Value. | Total imports. | Value. | Total imports. |
| | £ | % | £ | % | £ | % |
| United Kingdom | 68,394,423 | 51.9 | 63,607,743 | 45.2 | 69,047,807 | 43.9 |
| Canada | 5,064,253 | 3.9 | 5,046,519 | 3.6 | 3,384,712 | 2.1 |
| United States . | 24,851,303 | 18.8 | 34,556,529 | 24.6 | 38,728,814 | 24.7 |
| Japan | 3,936,150 | 3.0 | 3,557,834 | 2.5 | 4,146,234 | 2.6 |
| Other Countries | 29,511,706 | 22.4 | 33,849,668 | 24.1 | 41,835,729 | 26.7 |
| Total | 131,757,835 | 100.0 | 140,618,293 | 100.0 | 157,143,296 | 100.0 |

GRAPHS SHOWING THE PROPORTION OF BRITISH EXPORTS TAKEN BY CERTAIN OF THE BRITISH DOMINIONS AS AGAINST THE PROPORTION TAKEN BY CERTAIN FOREIGN COUNTRIES.



The year 1923-4 showed a serious falling off in the United Kingdom's proportion of the trade with Australia, and there was a further decrease during the year 1924-5. The percentage of the imports from Great Britain which had been 51.9 per cent. fell to 43.9 per cent. of the whole. There was, it is true, in 1924-5, an increase of £5,500,000, but this country was not obtaining the same share of the trade as she had formerly received.

A serious rival in one line is the United States. From 1922-3 the imports from that country had risen from 18.8 per cent. to 24.6 per cent. in 1923-4, and the proportion remained almost unchanged in 1924-5. This growth was largely due to the increased trade in American motor cars. British manufacturers, however, are taking steps to meet this competition.

The Balfour Committee considers that "the present share of the United Kingdom in a valuable market like the Australian will not be retained without severe competition from the United States and other countries. Australia offers many advantages to the British trader, a generous British preferential tariff, a strong sentiment in favour of British goods, a strong, progressive banking system, and a market which must expand with a greater or less degree of rapidity depending on the success of the immigration schemes in operation, or to be introduced.

Trade Rivalry in Australia

"In specific trades, according to the statistics for 1922-23, United Kingdom superiority seems to be well established in textiles (76.9 per cent.) and apparel (55.7 per cent.). In the cotton textile trade, the United Kingdom is supreme, the trade is thoroughly well organised, and her position is apparently unassailable.

Stationery and paper manufactures (71.9 per cent.), paints and colours

(73.2 per cent.), earthenware, china and glass (59.5 per cent.), are other commodities in which this country is well established. The weakness of the United Kingdom's position appears to be in machinery, engineering and allied materials.

In these cases, competition has to be faced from local manufacturers, as well as severe competition from the United States, and possibly from Germany in the near future. United States competition also continues in the goods classified as metals, metal manufactures, and motor cars, and in steel plates, sheets and sections. Undoubtedly the United Kingdom manufacturer owes something of his continued success generally to the tariff preference accorded to him.

Japanese competition is principally in silk goods. German competition is at present small; the resumption of direct trading between Australia and Germany only took place in August, 1922, and the operation of the Industries Preservation Act may have its effect upon the import trade from that country. Before the war imports from Germany were considerable. Imports of German goods in 1913 were valued at £7,000,000. Textiles and machinery and other metal manufactures composed the bulk of the trade. In 1922-23 imports of German goods were valued at £573,000 only.

"Although the proportionate share of the United Kingdom in the Australian market has been slightly reduced during the years mentioned, she still retains a preponderating share of Australia's imports. There is, however, ample scope for increased activity on the part of British manufacturers and exporters, and their Australian representatives, if their existing share in the trade is to be retained."

The following is a summary of exports from the United Kingdom to Australia for the year ending June 1925.

| | |
|--|------------|
| Foodstuffs of all kinds | £954,719 |
| Beers, Spirits and other alcoholic Liquors | 1,791,001 |
| Tobacco | 226,393 |
| Apparel—Textile and Manufactured | 26,782,623 |
| Oils, Fats, &c. | 309,134 |
| Paints and Varnishes | 471,687 |
| Metals and Machinery | 24,627,221 |
| Rubber and Leather | 800,003 |
| Wood and Wicker | 224,264 |
| Earthenware, China, Glass and Stoneware | 1,529,768 |
| Paper and Stationery | 4,692,738 |
| Jewellery, Clocks, &c. | 1,002,094 |
| Scientific and Optical Instruments | 825,334 |
| Drugs, Chemicals and Fertilisers | 1,873,447 |
| Miscellaneous | 2,937,381 |

The imports into Australia from Great Britain during this financial year, therefore, reached the not inconsiderable sum of £69,047,807.

New Zealand

The export trade of the United Kingdom to New Zealand compares favourably with the pre-war position. "The purchasing power per head of the population is very high, and patriotic sentiment in favour of British goods is very strong. The progress of the country has been extraordinary, and, as the population increases, the importance of the market to the United Kingdom manufacturer will increase also."

Some of New Zealand's imports of miscellaneous goods run into respectable figures. For instance, the following figures represent imports from the United Kingdom, and the steady increase in their value is shown by a comparison between the figures for 1914 and those for the annual fiscal period ten years later.

The very large increase under the heading of steel, iron and machinery is mainly due to an increase in the amount of machinery imported into New Zealand, the value of the imports rising from £634,210 in 1914 to £2,162,110 in 1924, and an almost similar ratio of increase exists in the articles which are classed under the

sub-division of miscellaneous metals and metal manufactures.

| | 1914. | 1924. |
|--|------------|------------|
| Apparel, including hats and caps | £1,336,888 | £2,046,984 |
| Boots and Shoes | 365,545 | 788,527 |
| Drapery, Haberdashery, Linens, Woollens, and Textiles | 2,101,213 | 3,971,787 |
| Hosiery | 192,990 | 328,755 |
| Silks | 55,673 | 129,585 |
| Iron, Steel, Machinery, Nails, Railway Plant, Tools, &c. | 2,903,497 | 7,010,682 |
| Sugar and Tea | 1,114 | 129 |
| Beer and Spirits | 740,717 | 1,743,667 |
| Paper, Books, &c. | 542,241 | 1,123,091 |
| Miscellaneous—Arms, Motors, Bicycles, Explosives, &c. | 2,365,019 | 4,307,797 |
| Unspecified Articles | 1,349,379 | 1,745,922 |
| Totals | 11,954,276 | 23,203,826 |

SELLING METHODS IN THE EXPORT TRADE

For all who can possibly do it, there is no doubt that the first step in seeking to commence, or to develop, an export business is to make a personal visit to the countries it is proposed to cultivate.

There is nothing like first-hand information, and there is nothing so essential to forming right judgments as an exact knowledge of all available facts. Things are not always what they seem to be on the surface, in the export trade or in any other walk of life.

To get the actual facts of an existing situation is always of first importance. We shall not follow here the average critic of British business methods, who decries his lack of initiative, his complacency, his stubborn adherence to worn-out methods, his lack of adaptability, and the rest of it.

That is not to say there is no ground for criticism; it probably is true that manufacturers and export merchants sometimes fail to realise sufficiently the peculiar needs of overseas wants, or to provide for them specially.

The Balfour Committee has put on record complaints of several countries regarding the unsuitability of the British article to local needs. It may be due to ignorance of local conditions and requirements, or it may be due to a disinclination to cater for these special needs. It is also definitely stated that, on the whole, American firms are more active in their efforts to meet the special needs of certain countries than are British manufacturers.

Dominion Complaints

There is complaint in Australia and New Zealand, and in some other countries, as to the unsuitability of the British article to local needs. "Where this is so, it will probably be advisable for British manufacturers to send out a representative to study local conditions and requirements. On the whole, American firms have, perhaps, been more active in this respect than British." Where successful competition is met with, the reason is usually one of price. But not always, price has not been the only deciding factor in reducing the number of British cars. Horse power, wheel base, road clearance, have all affected sales, in the past. This applies to many small cars so popular in England. Outside the main highways roads are not good, and in many country roads it is necessary to keep to wheel tracks. This cannot be done with cars of small wheel base. In winter, ruts become deep and a good road clearance is necessary. While the small car is suitable for the city owner, for he seldom leaves main roads, it is the man in the country to whom a car is a necessity, so road clearance must be considered.

British motor manufacturers are alive to the position, and an expert delegation (at the date of writing this) is about to set out to investigate again the whole position of overseas markets. What applies to the designing, manufacturing and marketing in the motor trade applies to other trades as well.

Adaptability to Local Requirements

The selling of motor tyres has been left to agents in New Zealand and Australia, but American manufacturers have had factory experts resident there to study local conditions, and to back up the efforts of their agents.

An agent for stationery goods states it as a fact that, although the size of New Zealand and Australian pound notes is very much larger than that of English notes, yet English manufacturers of leather note cases, wallets and purses, continue to send out cases which are useless for the purpose.

English firms produce many fine games for children and wonder why they cannot sell them. In New Zealand, Rugby is the national game and children do not understand the game of "soccer."

Freight rates are so high that manufacturers must consider size in preparing an article for export. Many lines of fancy goods that sell well in England have no chance of sale in the Dominions, as landing charges often amount to over 100 per cent. If a 20 per cent. saving in freight charges could be effected, the articles might become saleable.

While the factor of quality may be the main one in one particular country, that of cheapness is the deciding factor in another country. The primary thing with many buyers is quality, and in quality Britain excels. Price, however, is not always a secondary consideration. Take the case of a hammer at 7s. 6d. The artisan wants that, for he knows its quality. However, he represents only a small per-

centage of users. Amateur carpenters who quickly lose or leave hammers outside in all weathers, pay three shillings for the foreign make; it fills the bill.

The peculiar needs of a country and the psychology of the people of that country have to be studied. The surplus stock, therefore, manufactured for home production, will not always find a ready market in another country.

Value of Personal Knowledge

This brings us back to our first statement regarding the necessity of a personal visit to such countries. The interested person can study the conditions on the spot; he can ascertain at first hand whether his goods are entirely suitable; he can estimate the nature of the competition he will have to face; he will form his own judgment as to the best means to employ in engaging agents, or in effecting distribution—and these things are all important. It is a mistake to rely entirely on reports, or to take things too much for granted. The following illustration of this was given to the writer.

There are a great many boot and shoe manufacturers in Great Britain doing a large export trade, but quite recently it was almost universally believed among them that there was no market for British boots and shoes in Canada; their total exports to that country had dwindled in 1923 to £82,000. One English manufacturer had the courage of the contrary opinion, and, at the end of a single year, his sales in Canada had more than equalled the aggregate British sales for the year previous in that country. A few other British manufacturers followed his example, and the exports rose in two years to nearly a quarter of a million, while the demand was rapidly expanding, and, meanwhile, the sale of American-made shoes in Canada had dropped by £20,000.

How the German porcelain manufacturers wrested from the British a

large proportion of the export trade to India is an old story, but contains a lesson of enduring value. They studied the situation carefully from statistics first, and then sent a representative to India to report. This man noticed the small size of the Indian egg and its ridiculous appearance, or, rather, disappearance, in an ordinary English egg-cup. He collected eggs from various districts, measured them, and averaged their dimensions, and sent to Germany for a supply of specially small egg-cups.

While they were coming he studied the bazaars and means of distribution; when they came they were sold quickly in all parts of India, and the demand for more of them grew rapidly. Very soon they had become so established that people had to buy German breakfast and tea services to match their egg-cups, and dinner services followed in due course. The adaptation of one small article to suit a local peculiarity was the means of securing an immense new export market for a large range of products.

One British manufacturer, when he was close on sixty years of age, paid his first personal visit to the markets in which his firm was interested. Two years later he said that his trip had been worth £100,000 to the business of which he was chairman. He had never before realised the importance of a personal inspection.

The exporter must know what alterations are necessary in particular articles if they are to meet the needs of foreign customers. He will very often discover that something more than climatic conditions enter into the question.

A British merchant travelling in Egypt enquired of an importer why he bought German tools instead of British, which were of better quality although of slightly higher price. The reply was that the cheaper and less enduring tools were what he wanted. His customers were Mahommedan,

and whenever a tool broke it was "the will of Allah"; and the oftener they broke, the oftener the caravans came into Cairo and bought other goods.

Meeting Local Conditions

The people of different countries have different habits; some special peculiarities of their own; some idiosyncrasy deep rooted that must be recognised, if we would do business with them. It is not every country, for instance, where the position of the drive in a motor car is from right to left, as in England. In Latin-American countries the opposite is the rule. A matter of this kind, of course, necessitates a change in the product and the same thing applies in other directions. Sometimes the expense of special adaptation, unless the market is a big one, may not be worth while. The steam engines used on the railroads of the United Kingdom are not always the best type for the light railway systems of India or Egypt, where tractors are often preferred for economy in working. These problems must be settled by individual manufacturers. They are always cropping up in various industries.

The point may arise, of course, when a manufacturer has to decide for himself whether he shall export the articles he makes for the home market, or whether he will adapt his plans to manufacture specially for export.

Service and Publicity

The method of marketing goods in the Dominions or in foreign countries is another matter of vital importance. In this connection it is stated that Americans are to the front in the matter of what is called "Service." That is to say they help the importer to dispose of articles bought. Sometimes this is done by publicity campaigns; it is asserted that the United States does nearly 75 per cent. of the trade of Australia in vacuum cleaners,

owing to active selling and advertising campaigns.

Publicity should be applied to the sale of goods in foreign countries, much in the same way as it is used in the home markets. It is admitted that this is not so easy to do, or to control, as it is at home. The selling plan must be left to experts conversant with all the conditions that apply in individual cases. The same principles will be applied as in the home market: sometimes the *media* employed will be trade journals; sometimes the columns of the daily or weekly papers; sometimes advertising matter and export catalogues. Naturally, catalogues will be written in the language of the foreign customer and the information should be the fullest possible.

A great many British firms when appointing an agent consider no more is necessary. Some firms whose home advertising amounts to 5 per cent. of turnover do not spend $\frac{1}{4}$ per cent. in publicity in the Dominions, yet wonder why returns are not greater.

"Service," to the foreign customer, may go further than this publicity. In engineering and allied products in particular, service may take the form of expert instruction in the use of machines and the like. A technical man will be provided to give such advice and supervision as is often required.

This form of service has proved of incalculable value in connection with the maintenance of depots where spare parts can always be obtained for many types of machinery where prompt delivery is essential.

Sweden obtained and held the supply of separators and many lines of dairy factory machinery; experts were sent from Sweden and were always at the buyers' service. When he is two months from the source of supply it is serious when broken parts cannot be replaced locally, as it may cause a stoppage to numbers of men; a manufacturer in the Dominions has to watch this aspect.

The Placing of Agencies

On the subject of trading methods the Trade Commissioner for Australia says: "Australia is at present Great Britain's second largest export market, although her population is only about 6,000,000. This fact alone should be sufficient to attract the attention of firms in the United Kingdom and to lead them to look more closely into the possibilities of development of this extremely valuable market.

"The magnitude of Australia and the diversity of its requirements in themselves demand that firms should give the closest possible study, not only to the market as a market, but to the geography of the country, its variations of climate, the differences in its peoples and diversity of its economic life, all of which have a very important effect on its trade.

"It is only when one begins to attempt to cover Australia by travelling over it and round it that the difficulties of organization facing any firm which sets out adequately to extract the maximum amount of business from the Commonwealth can be realised. I am afraid it is a fact that a large number of firms who sell goods to Australia have little, if any, appreciation of these things. The majority are probably satisfied to sell to 'London shipping' as long as this method brings business.

"The placing of agencies in a country like Australia requires the most careful consideration and appreciation of the differences between the various States and the influence which these differences will have in the choice of an efficient organization. There are some well-known firms who have their own branches throughout Australia, and with whom agencies may safely be placed with the assurance that attention will be given to the agency in every part of Australia where business might be done.

"These firms, however, are rela-

tively few, and it naturally follows that, being few, they are in most cases well supplied with agencies, and are often unable to consider further offers. In cases in which it is impossible to arrange agencies with such a firm, it is desirable, if not essential, to consider carefully the appointment of separate agents in each State. Although there are firms who operate throughout the whole of Australia, each State may be said to have its own separate and peculiar trading organisation."

On the whole, what the Trade Commissioner says is true; but there is no doubt that the most satisfactory thing is to appoint a chief agent, say, in Australia and New Zealand, who arranges for sub-agents in districts. This applies particularly where stocks are carried. There is little trouble in arranging with live firms to take control of a particular line for a district; the chief agent is able to judge results.

In the main, the Trade Commissioner is also right when he says, "An all-Australia firm which may occupy a position of prime importance in one State may be of only secondary importance in another, and a purely local firm may in its own State be of greater importance than a much larger and more important all-Australia firm in that particular State.

"Further, one firm may operate in Queensland and New South Wales alone, or in Victoria and South Australia alone, or in South Australia and Western Australia alone, or in each one of these States alone. These circumstances require consideration, and it is really only by personal contact in Australia itself that one can ascertain exactly what is the significance of any one particular firm—however generally important it may be—in any particular State or locality.

"To appoint an agent in either Melbourne or Sydney for the whole of Australia, merely because he asks

for the agency, is often to rule out the possibility of securing the majority of the trade which might be available.

"There are exceptions, of course, and I have known of cases in which agencies have been given in this way with highly satisfactory results. This only happens, however, in cases where the main agent so appointed is energetic enough to organise thoroughly throughout the whole of Australia, either by the establishment of his own branch offices, or by the appointment of sub-agents, on terms sufficiently favourable to the sub-agent to make it worth his while to push sales.

"It has been pointed out to me repeatedly, and particularly in States like Western Australia and Queensland, that main agencies are often given for the whole of Australia to firms in either Melbourne or Sydney, who have no adequate organisation in the outlying States. It is only natural that some firms should willingly accept agencies of this kind, which it would well repay them to work themselves in the East, while, from other States, in which it was not worth their while to put in any active organisation, they would be satisfied to draw a certain amount of commission.

"So it sometimes happens that the business of British firms, which is well looked after in the larger States, is neglected or insufficiently pushed in the outlying States owing to lack of proper organisation. Some of the best agents in these outlying States are not prepared to accept sub-agencies, or if they do accept them, they do so only until such time as they can secure a direct agency themselves for similar goods. . . .

"It is impossible absolutely to guarantee the *bona fides* and suitability of firms wishing to operate agencies, but in these days it is possible to reduce the chances of mistake to a minimum if proper enquiry is made and sufficient thought is given to the needs of the market.

In spite of this the goodwill of many British firms of high repute has been seriously prejudiced in Australia by the appointment of agents who would never have been appointed had the firms at home taken proper steps to understand the trading organisation of Australia, and to ascertain the standing and experience of the agent in question.

"How necessary it is to have an extensive and efficient organisation may be realised to some extent by a consideration of the distances of the various buying centres from one another and the almost hopeless impossibility of working Australia from any one centre.

"Melbourne and Sydney are, of course, by far the most important purchasing and distributing centres; in fact, the two States of which they are the capitals import about 77 per cent. of the total imports into Australia, but in themselves the requirements of these two centres vary considerably for climatic and other reasons, and the channels of trade are to a considerable extent distinct. Queensland and South Australia import about £12,000,000 value each, or about 8.6 per cent., of the total imports of Australia, while Western Australia imports about £7,000,000 and Tasmania about £1,600,000 in value.

"The following figures show the relative purchasing power in imported goods of the population per head per annum in each State :—

| | £ | s. | d. | |
|-------------------|----|----|----|----------|
| New South Wales | 24 | 8 | 0 | per head |
| Victoria | 28 | 4 | 0 | " |
| Queensland | 13 | 0 | 0 | " |
| South Australia | 20 | 0 | 0 | " |
| Western Australia | 18 | 12 | 0 | " |
| Tasmania | 7 | 6 | 0 | " |

"These figures are some guide to the extent to which trade in Australia is decentralised. The distances alone make this decentralisation necessary. . . .

"It is well known that Australia is extremely well served by its London

merchanting and buying agency organisations, but firms at home are inclined to regard all the various firms composing these organisations as of one type, classed under the general description which British firms give to this class of trade, viz., 'London Shipping.' . . .

"As a matter of fact, there are very important differences which it is well that firms at home should appreciate, if they wish to realise clearly the nature of the business which they themselves as manufacturers are doing with a country like Australia; and it is necessary that they should realise this.

"British manufacturers must be aware that a very great number of orders which reach London closed on particular firms of manufacturers, never reach those firms because they are diverted by London buying houses at their discretion. In fact quite a considerable business has grown up in London of London agents of British and Continental manufacturers securing the diversion of orders from firms nominated in indents. In this way a great deal of the effectiveness of a manufacturer's selling organisation in Australia may be defeated.

"British manufacturers must study the intricacies of Australian importing, so that they may know exactly what they are doing, and where and how their goods are going to Australia, if they are to secure the maximum of business which might be available for them."

Advantages of a Branch Office

This matter of agencies is an important one for every exporter, and the support given to them from home is equally important. A contention widely voiced is that the supply of lists, catalogues and advertising matter falls far short of that from America, which country has also the great asset of a preponderating circulation, especially in Canada, of American magazines, periodicals and literature, all carrying advertisements.

An increasing number of manufacturers are handling their own export business, dealing directly with the foreign buyer, without the intervention of the middleman.

Partly, this is due to the action of large importing houses overseas, who get into direct touch with the manufacturers of the goods they need; they rely on export merchants chiefly for sundry articles of which they want a varied assortment in small quantities.

Where the volume of business justifies it, the establishment of a foreign branch by British manufacturers and export merchants has everything in its favour. The exporter with a foreign branch has the advantage of keeping in closest touch with his market; stocks can be kept, ensuring prompt delivery; show rooms are open to customers; in a word, the facilities which home buyers enjoy are given to foreign customers.

In the case of machinery, tools and many articles of a technical nature, it is an advantage to have a man on the spot who thoroughly understands the goods he has to sell, and is able to demonstrate their special qualities and uses. A general merchant overseas, dealing in a great variety of imports, cannot be expected to apply the same intensive salesmanship to a particular line that it would receive from the resident representative of its producer.

It is not contended that there are no drawbacks in establishing foreign selling branches; amongst them is the expense; in certain classes of fashion, seasonable, and other goods with a short "life"—certain kinds of books, for instance—unsaleable stocks may accumulate.

Still, for firms with ample capital, whose exports run into high figures, the advantages are manifest; service and personal attention are rendered possible; credit problems, and the standing and reputation of potential customers, can be investigated on the

spot instead of at a distance; and the principals at home are kept in close touch with changing conditions in their markets overseas, and are immediately advised of any new trend of demand or competition, and of any modifications in the product that would enhance its local appeal.

The Individual Salesman

Comparisons have been made between British and American salesmen. It serves little purpose to generalise on such a subject. Both have their share of good, and of indifferent, salesmen. American salesmanship has become a fine art, and the energy and resource of the American salesman are no doubt excellent, because they are very skilfully trained. The value of personal salesmen, directly employed by the British export merchant, cannot be over-rated; working on the spot a thoroughly trained salesman will often effect sales in the teeth of higher prices simply by reason of the superior quality of his goods. But it depends on the salesman.

It is perhaps unfortunate that British firms are often their own keenest competitors. Six firms in the shoe trade, for example, may be found selling independently, each competing in the same line of goods, types and prices.

The American is fond of reducing types and styles to a minimum with a view to economy in manufacture; in one instance they have reduced the variety of patterns from some eight hundred to about fifty. There is no question that too great a variety of patterns increases manufacturing and selling costs. It has been urged that firms in certain businesses should group themselves for selling purposes overseas; many firms have working arrangements something after this style. It is to the sales end of their business that exporters should look for increased business.

In the absence of a selling branch overseas, the exporter will probably

resort to selling agents. We have made reference to this subject on a previous page. Despite long years of experience, it is too often the case that the same mistakes continue to be made, and exporters are not always fortunate in the agents they employ. There are agents and agents, and great care has to be exercised if the right people are to be appointed.

Some offer their services on so-called mutually advantageous terms, generally with a view to obtain an expenses allowance from as many firms as possible. Occasionally, with smaller exporters, this may be a feasible arrangement, but the repute of such agents should be known personally to the exporter. They may do little in return for an allowance, they may even hamper business if they are interested in competitive goods which pay them better.

Supporting the Agent

Once a selling agent has been appointed, it is important to support his activities by generous advertising and continuous supplies of samples or stocks, and by meticulous attention to his communications and suggestions. In this connection *The Times* Special Correspondent wrote in April, 1926, as follows: "Service by the principal to the agent is essential. In Canada complaint has not infrequently been made by agents of British exporters that they receive far less support than their colleagues who have American goods to sell.

"Their telegrams are either answered only by letter or entirely ignored; their suggestions are not acknowledged and apparently not considered; they are not helped like their rivals by generously planned advertising campaigns and by a willingness to supply a steady flow of samples and maintain adequate stocks where desirable. The distributor for a British house is seldom able to say to the retailer as the American distributor can, 'My firm will sell these goods for you by

our advertising campaign; all you have to do is to stock them.' "

This point has been also stressed in reports issued by the Commissioners of Overseas Trade.

Export Merchant Houses

The functions of export merchant houses are (1) to purchase goods for foreign and overseas markets, which they will sell on their own account; and (2) to act as indent merchants, that is, they receive orders from abroad and place them with the home exporter. These indent houses, therefore, act for the buyer, not the seller.

The export merchant proper acts on his own behalf in purchasing and shipping goods, and selling them through his branches or connections in other countries, on his own account. He assumes all responsibility.

Different merchant firms specialise in East Indian business, in Australian, Continental, South American, or Mediterranean; some confine themselves mainly to exporting textile piece goods, while others deal in general merchandise.

In the nineteenth century these merchant shippers built up Great Britain's export trade, carrying her goods to all parts of the world, and easily finding markets for them in exchange for the foreign cargoes they brought back; but now that British goods are faced everywhere with keen competition, markets have to be sought, effective salesmanship has become necessary, and manufacturers take more part than heretofore in the disposal of their products.

One consequence is that there is less distinction now than formerly between the merchant proper and the indent merchant, who acts as a buying agent for importers overseas. His orders come to him in the form of indents, which may be either "open" or "closed."

A closed indent is an order to buy certain specified goods from a specified

firm, and to ship them according to instructions.

An open indent specifies the goods, but leaves it to the discretion of the indent merchant to buy them where he thinks best. In this case it is his business to find out the most profitable sources of supply, to purchase and collect the various goods, to arrange for their proper packing and their shipment, and, if he has been so instructed, for their insurance.

The tendency is more and more for indents to be "closed," as overseas buyers gain a fuller knowledge, through the development of advertising, of the names and products of specific firms.

Shipping Agents

Shipping agents are firms who specialise in all the details of the export trade, in packing, forwarding, warehousing, choice of routes and dealings with the shipping companies. The larger ones possess their own wharves and warehouses, their own packing departments, their own road transport and river boats or lighters. Both manufacturers and merchants often find it profitable to turn over to them the whole arrangements for the transport of their goods, from the factory of their origin to their ultimate destination.

By collecting various consignments, and shipping them together, they can frequently obtain better terms for each exporter than could have been obtained for the small parcels separately; and while bills of lading issued by shipping companies as a rule cover the sea voyage only, the leading shipping agents issue "through bills of lading" which cover transshipment and road or rail transport from the port as well.

Direct Buying

A considerable number of both foreign and colonial houses do their own buying in Great Britain, and an increasing proportion of the export trade is transacted in this country.

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No Policy or other Contract dated on or after 1st January, 1924, will be recognised by the Committee of Lloyd's as entitling the holder to the benefit of the Funds and/or Guarantees lodged by the Underwriters of the Policy or Contract as security for their liabilities unless it bears at foot the Seal of Lloyd's Signing Bureau.

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as well in *their* own Name, as for and in the Name and Names of all and every other Person or Persons to whom the same doth, may, or shall appertain, in part or in all, doth make Assurance, and cause *themselves* and them and every of them to be insured, lost or not lost, at and from

upon any kind of Goods and Merchandises, and also upon the Body, Tackle, Apparel, Ordnance, Munition, Artillery, Boat and other Furniture, of and in the good Ship or Vessel called the

whereof is Master, under God, for this present Voyage, or whosoever else shall go for Master in the said Ship, or by whatsoever other Name or Names the same Ship, or the Master thereof, is or shall be named or called, beginning the Adventure upon the said Goods and Merchandises from the loading thereof aboard the said Ship *as above*

upon the said Ship, etc., *as above*

and shall so continue and endure, during her Abode there, upon the said Ship, etc.; and further, until the said Ship, with all her Ordnance, Tackle, Apparel, etc., and Goods and Merchandises whatsoever, shall be arrived at *as above*

upon the said Ship, etc., until she hath moored at Anchor Twenty-four Hours in good Safety, and upon the Goods and Merchandises, until the same be there discharged and safely landed; and it shall be lawful for the said Ship, etc., in this Voyage to proceed and sail to and touch and stay at any Ports or Places whatsoever *and where-soever for all purposes*

without Prejudice to this Insurance. The said Ship, etc., Goods and Merchandises, etc., for so much as concerns

the Assured, by Agreement between the Assured and Assurers in this Policy, are and shall be valued at

Touching the Adventures and Perils which we the Assurers are contented to bear and to take upon us in this Voyage, they are, of the Seas, Men-of-War, Fire, Enemies, Pirates, Rovers, Thieves, Jettisons, Letters of Mart and Countermart, Surprisals, Takings at Sea, Arrests, Restraints and Detainments of all Kings, Princes, and People, of what Nation, Condition, or Quality soever, Barratry of the Master and Mariners, and of all other Perils, Losses, and Misfortunes that have or shall come to the Hurt, Detriment, or Damage of the said Goods and Merchandises, and Ship, etc., or any Part thereof; and in case of any Loss or Misfortune, it shall be lawful to the Assured, their Factors, Servants, and Assigns, to sue, labour, and travel for, in and about the Defence, Safeguard and Recovery of the said Goods and Merchandises, and Ship, etc., or any Part thereof, without Prejudice to this Insurance; to the Charges whereof we, the Assurers, will contribute, each one according to the Rate and Quantity of his Sum herein assured. And it is especially declared and agreed that no Acts of the Insurer or Insured in recovering, saving, or preserving the property insured, shall be considered as a waiver or acceptance of abandonment. And it is agreed by us, the Insurers, that this Writing or Policy of Assurance shall be of as much Force and Effect as the surest Writing or Policy of Assurance heretofore made in Lombard Street, or in the Royal Exchange, or elsewhere in London.

Warranted free of capture, seizure, arrest, restraint, or detainment, and the consequences thereof or of any attempt thereat (piracy excepted), and also from all consequences of hostilities or warlike operations whether before or after the declaration of war.

Should the above clause be deleted, the following clause is to operate as part of this Policy :—

Warranted free of any claim based upon loss of, or frustration of, the insured, voyage, or adventure, caused by arrests, restraints or detainments of Kings, Princes or Peoples.

And so we the Assurers are contented, and do hereby promise and bind ourselves, each one for his own Part, our Heirs, Executors, and Goods, to the Assured, their Executors, Administrators, and Assigns, for the true Performance of the Premises, confessing ourselves paid the Consideration due unto us for this Assurance by the Assured at and after the Rate of

IN WITNESS whereof, we the Assurers have subscribed our Names and Sums Assured in *London*.

N.B.—Corn, Fish, Salt, Fruit, Flour, and Seed are warranted free from Average, unless general, or the Ship be stranded; Sugar, Tobacco, Hemp, Flax, Hides, and Skins are warranted free from Average under Five Pounds per Cent.; and all other Goods, also the Ship and Freight, are warranted free from Average under Three Pounds per Cent., unless general, or the Ship be stranded.

The larger houses maintain permanent branch offices, generally in London, to whom they send particulars of their requirements and these maintain a staff of expert buyers.

Other houses send over their buyers periodically, who tour the industrial European countries as well as the United Kingdom, in search of what they need; their sailing and itineraries are listed whenever possible in the trade papers of the various industries, and manufacturers and merchants get in touch with them. It is the case that many important buyers do not now go out in search of goods; competition for their business is keen and they sit in their offices, where they see representatives that come to them in increasing numbers.

VI

EXPORT ROUTINE

The routine of a large export merchant's office differs from an ordinary mercantile office only in detail.

There will be found various departments, each with its own particular work. One department deals with the indent orders which the export merchant has to execute.

When the indents are received they may include a great variety of articles. The indents are dissected, or sorted out into the various classes of goods, and the lists are passed on to the buying department, whose business it is to place the orders to the best advantage. In the case of "closed" indents, it is only a matter of making the best terms with the suppliers who have been specified in the indent. With an "open" indent the buyers have a free hand to purchase at their discretion on the best terms obtainable.

In closed indents the particular articles are defined as regards the maker, quality and pattern, so that the articles have to be purchased in the quarters named. The indent merchant may be allowed a certain latitude, but the exercise of his

discretion is usually confined within very narrow limits.

Where there is "open" business at the export merchant's disposal, the competition to secure it is very keen, and more responsibility rests on the export merchant, for here judgment and an expert knowledge of markets are required. The form of the indent is that of an ordinary order form, the goods and quantities being specified, and instructions given as to shipping, numbering and marking.

When all the orders have been placed, arrangements have to be made as to shipping. If the goods are to be shipped direct by the suppliers, specific instructions will be given. If the export merchant attends to the shipping, his own receiving department will be furnished with a list of the goods to be received. They will be checked and packed in accordance with the instructions.

There may be more than one shipment, as frequently separate dates for delivery may be specified in the indent, and these have to be adhered to. The shippers of goods must be very wide awake if they would ship to the best advantage, for conditions are always changing; to miss a boat may cause serious inconvenience to the client at a distance.

This is a matter to which exporters should give more attention. Extreme care is often taken in the final inspection of goods, strength of casing, packing, and wastage of space and even big manufacturers often consider that they have done all when these things have been seen to and the case is sealed and sent for shipment.

But that is not everything. Rates of freight vary, and it should be the business of every exporter to see that his customer obtains the best freight rate. A mistake in freight in bulky articles of small value can make a difference of 40% in landed cost, and it not infrequently happens. The expert shipping clerk is a great asset, for he has a good deal to do

with regard to maintaining the trust and confidence of the firm's overseas customers.

Packing

Packing for export may either form a department of the exporter's own establishment, or may be carried out by independent firms who specialise in such work.

Shipping agents, already mentioned, frequently combine with their own business that of packers and shippers for other firms. Different methods of packing are needed both for different classes of goods and for different destinations. Broadly speaking, the methods are divided into casing, crating and baling.

The more expensive kinds of casing, such as wood lined with oil baize or with tin, are usually insured at lower rates; many textile goods have to be "made up" for packing, *i.e.*, roughly stitched together in certain folds of measurements; other more cumbersome goods, such as articles of furniture, are "knocked down," or taken to pieces in such a way that they can be easily put together again upon arrival; protruding handles are removed, and hollow goods are nested; everything is done which will save space, as the majority of freight rates are based upon ton measurement, or cubic space occupied, and not upon ton weight; a ton in this case being taken as 40 cubic feet of space.

Besides security against rough handling and the risks of pilferage, climatic conditions must be considered; also the methods of overland transport at the other end, the varying customs regulations of foreign countries, whether they are based on weight, either gross or net, and sometimes even the religion of the country; tarpaulin, for instance, containing animal fat, must not be used for goods consigned to strict Mohammedans.

In packing machinery or similar goods, great care is necessary to have all the component parts, however

small, checked over accurately; a single essential missing on arrival may cause great expense and disappointment.

A 200 or 400 gals. galvanised iron tank is now frequently used as a packing case. Not only does it insure sound arrival of the goods, but it lessens the buyers' landing costs. Unlike a case, which is of little value after opening, a tank can be sold; if only cost price is obtained it means that the buyer has no charge for packing; horse hair used for packing earthenware, etc., can always be sold.

When the packages are completed, they are plainly marked by stencil with the shipping mark of the overseas importer on two sides, and the port to which they are consigned. Marks are used instead of full addresses, partly for quick identification, and partly also for secrecy, as well as being shorter.

The Shipping Note

All the various shipping lines publish forthcoming dates of sailing. When the exporter, or his shipping agent, has decided on the vessel by which a consignment of goods is to be shipped, and has arranged with the shipping company for freight space to be reserved, he dispatches them with a "shipping note," addressed either to the commanding officer of the ship or to the superintendent of the dock, as may be necessary.

This note specifies the number and description of the packages, their contents and the marks and numbers by which they are to be identified, and requests from the officer to whom they are delivered a "clean receipt" for them. A receipt is "clean" if it does not contain any remarks as to damaged condition on arrival.

It is the officer's business to make sure that all the marks and numbers on the packages correspond exactly with those given in the shipping note, and only to accept the cargo and sign the attached receipt if they do so

correspond. The "mate's receipt" or "dock receipt," which also contains full particulars of the packages and their identification marks, is then detached from the shipping note and returned to the exporter.

The Bill of Lading

When the cargo is actually on board the vessel, the "mate's receipt" is exchanged for a more formal document, the "bill of lading," which is the official acknowledgment by the shipping company that they have received the goods into their custody for transport, and that they undertake to deliver them, on certain specified conditions, at the place named in the bill, and to the person named, or else "to order."

Bills of Lading, (Bs/L), as issued by the shipping companies, vary in certain details, and in the number of clauses by which the terms of contract are defined, and it is important to make sure before signing them that no unreasonable qualification has been added to the usual conditions.

As a rule the bill of lading includes a statement of the freight charges on the goods, with the primage or special charge for loading them, and when filled in and signed becomes the documentary title of ownership to the goods described on it; only on presentation of the bill of lading can the consignee obtain delivery on their arrival, or the shipper get his bill of exchange discounted at the time of shipment.

Bills of lading are made out in triplicate, or more often in quadruplicate; two parts or copies are sent to the consignee by different vessels, so that if one fails to arrive he may receive the other in good time to enable him to claim the goods; the remaining two parts are held respectively by the shipowner and the shipper for reference. The first bill of lading which is presented at the port of destination becomes the valid one, rendering the others void.

For the export of coal, iron and

other exceptionally bulky cargoes, a vessel is chartered from the ship-owners and a special agreement is drawn up, known as a charter party, either for the single voyage, or for a period of time during which the vessel is to be under the instructions of the charterer; in such case the charter party takes the place of the bill of lading as the document conveying ownership.

The Freight

The freight note is merely the formal account, or debit note, sent by the shipping company to the shipper, detailing the charges that must be paid before the goods can be finally accepted for conveyance. If a through rate has been obtained, it will include not only ocean freight, but primage, dock dues, transshipment charges, and all expenses to the final point of destination. For a large shipment special freight rates may be obtained. Rates are variable: by mail steamer they may be double that of a tramp steamer. If desired, insurance also can be effected through the shipping companies.

Insurance

Sometimes overseas buyers expect quotations of exporters' prices to be c.i.f., i.e., inclusive of cost, insurance and freight; but whether the quotation has been c.i.f. or f.o.b. (free on board), it is part of the exporter's business to arrange for the insurance.

Marine insurance may be effected in London by the shipper in the name of the consignee, or in his own name, and the policy endorsed to the consignee; the insurance policy, or the certificate of insurance, if the policy is not complete in time, is one of the shipping documents which must accompany the bill of lading, whether this is forwarded direct to the consignee or whether arrangements have been made with a bank to hand it to them against payment for the goods, or acceptance of a draft.

The language of marine insurance documents is complicated by the use of many special words and phrases, and exporters usually employ marine insurance brokers, who are experts in its intricacies, to transact their business for them.

Whether the insurance is to be with Lloyd's or with an insurance company, the initial step is to fill up a "slip" or proposal form declaring the amount to be insured, and the details of the goods and of the voyage; at Lloyd's this slip is initialled by the different underwriters for the proportion of the total risk which they will individually accept. The policy is made out on the basis of the slip, and during its preparation a provisional note, or certificate, is given to the shipper acknowledging that insurance has been effected and the risks are covered.

Exporters who do a considerable trade frequently take out a "floating" or "open" policy, sufficient to cover the goods on the water at any time; the particulars of each shipment is declared as it occurs.

The conditions under which goods are insured vary, and the shipping house generally receives instructions as to the form which the insurance is to take. The best terms are offered by the form of policy which is known as "With Particular Average" (W.P.A.). This enables a consignee to recover any loss, total or partial, arising from the perils of the sea as defined in the contract; these will be found to be almost identical with the principal liabilities which are guarded against by the steamship company in the Bill of Lading. If, however, the policy is effected at the invoice value of the goods the consignee will, in the event of their destruction, lose the profit which he expected from their sale and, in order to cover this contingency, 10 per cent. should be added to the invoice value.

The form of marine insurance known as "Free of Particular Average" (F.P.A.) does not offer the same pro-

tection, and the insurance company is not liable under its terms for any claim arising from partial loss through sea-water or bad weather, and is only responsible for partial loss in the event of the ship's stranding, or being on fire, or having been in collision with another vessel. If the form of policy is not specifically prescribed, the consignee should effect the policy which is usually taken out on the particular class of goods, with the addition of 10 per cent. to cover the loss of expected profit.

Certain risks repudiated in the Bill of Lading are not covered by either of these forms of marine insurance, but may be included in the policy drawn out by the insurance company on payment of an additional premium. Goods of a brittle or frail nature may be insured against the risk of breakage in transit, on payment of a premium to be agreed on with the insurance company. The ordinary policy, however, covers loss from breakage if it can be proved that the ship encountered the usual perils of the sea. The risk of leakage of oil, or other liquids, can be covered on terms arranged with the insurers. Loss from pilfering, where the goods are of a valuable nature, has recently become a serious factor and, as a consequence, no premium, however high, will induce an insurance company to cover more than 75 per cent. of the shipping value against loss by theft.

The Invoice

Correct invoicing is a very important part of the business of exporting, not only to prevent difficulties between the exporter and importer, but to facilitate the latter's dealings with the customs officials of his country.

The invoice will state the detailed measurements and descriptions of the goods, a detailed statement of all the charges which make up the various amounts, such as packing, freight, postages and bill stamps, insurance and others, and a statement of the

point to which these charges have been paid.

Customs Duty is based on actual cost (*i.e.*, *ad valorem*). No duty is payable on insurance, freight, dock dues, cartage or packing, so these items, even where goods are sold *c.i.f.*, should be invoiced separately.

Invoices are made out according as the price has been quoted, which may be "*Loco*," "*f.o.b.*," "*c. & f.*," "*c.i.f.*," "*franco*," or "*f.a.s.*"

"*Loco*" means the cost at the warehouse or the factory.

"*F.o.b.*" (*free on board*), means the *loco* price, plus packing, forwarding and shipping charges.

"*C. & f.*" (*cost and freight*), means *f.o.b.*, plus freight.

"*C.i.f.*" (*cost, insurance and freight*), is *c. & f.*, plus insurance.

"*Franco*" (*or free*), includes *c.i.f.*, plus import duties, and free delivery at final destination.

"*F.a.s.*" stands for "*free alongside ship*," that is to say, it includes the loading of goods on a lighter, and delivery to the ship's side.

Certificates of Origin and Consular Invoices

The precise requirements with regard to these vary with almost every country; sometimes both are required, sometimes only one; sometimes certificates of origin are required for all goods, sometimes for certain classes of goods only. Where, as in the case of the Dominions, a preferential tariff is in force, elaborate declarations as to the place and cost of manufacture, and many other details have to be made. The purpose of this is partly to protect the British manufacturer, and to ensure that no goods of foreign origin shall be admitted on the terms to which he only is entitled, and partly to prevent dumping from countries with depreciated currencies.

A typical example of such declarations is the form of certified invoice which came into force for all ship-

ments arriving in New Zealand after April 1st, 1926. It includes an invoice, showing in addition to the marks, quantity and description of the goods, their current domestic values in the currency of the exporting country, and their selling price to the purchaser, with the various charges that have been added to make up that price. The certificate requires under the head of "*origin*" a declaration that the goods were wholly or partially manufactured or produced in Great Britain, and, if partially, that the final process was performed in Britain or one of the Dominions, and that at least 50 per cent. of the expenditure on labour and material was spent in Britain or one of the Dominions.

Information as to the forms needed for shipment to different countries, and as to the regulations governing the various declarations, can be obtained from the Department of Overseas Trade, 35 Old Queen Street, London, W.C., or from the high commissioners and Agents General of the various Dominions and Colonies. There is also a special department dealing with them at the office of the London Chamber of Commerce, while a list of "*Consular Requirements*" revised and brought up to date is published half-yearly by the Corporation of Lloyd's, Royal Exchange, London, E.C.

At the various Dominions Headquarters in London an expert from the Customs Department is stationed to advise manufacturers.

Tariffs and other Restrictions

Before the war there were many hindrances to complete freedom of trade between commercial nations, in the form of tariffs, bounties, and State subsidies; but economic forces had far freer play than is now the case. Intercourse was less impeded, the world's markets were more open, protective tariff walls were lower and less universal.

During the war nations became alarmed at the extent of their dependence on each other, and their efforts to become more self-supporting and to develop their own industries resulted in high tariffs and in prohibitive legislation, modified by a troublesome system of import licenses.

Some of these prohibitions have since been removed, as by Hungary and Czecho-Slovakia, but the tendency is to replace them by still higher tariffs. Known tariffs, however high, are preferable to the uncertainties of the licensing system, which enables administrative officials to discriminate in ways not provided for in their countries' treaties or its legislation.

The customs tariffs of different countries vary greatly in the basis of their assessment; some are specific, levied on the weight, size, or number of the goods, or on some combination of these; others are *ad valorem*.

With very few exceptions Great Britain enjoys "most favoured nation" treatment at the hands of foreign countries, her goods being admitted at the lowest rates of customs applicable to any similar imported goods; and in several cases, notably that of France, this treatment gives the United Kingdom a distinct advantage over such important competitors as the United States and Czecho-Slovakia.

The Dominions of the Empire have made great strides in the development of their home industries since the war, and protect them by high tariffs; but these are offset in the case of British goods by various degrees of preferential treatment. The highest preferences are given by Australia and New Zealand, ranging from 10 per cent. to 20 per cent. on dutiable articles, while cotton piece goods are admitted to both countries free. In New Zealand the tariff is imposed for revenue purposes and not protection. If the preferential treatment is sufficiently well marked, the establishment of a tariff may prove an

encouragement to British exports; an instance of this is the case of iron and steel wire, the exports of which to Australia trebled in volume during the first two years after they ceased to be admitted free.

VII

THE FINANCE OF FOREIGN TRADE

In another chapter of this work the uses and nature of bills of exchange are fully explained. Bill brokers, discount houses and banks play an important part in affording financial facilities in connection with the export and import trades as explained in the chapter mentioned.

To what extent a bank will afford financial facilities depends upon the exporter's standing, and the financial credit of the importers.

The exporter may obtain payment for his goods in several ways. He may hand his bill of exchange, with the relative bill of lading (which is his document of title to the goods), to the bank, who will undertake to collect the money.

The exporter may ask the bank to discount the bill, in which case he need not lie out of his money until the bill has been honoured, and the money remitted to him. The bank buys the bill at its face value, less an agreed discount.

In either of these cases the bill of exchange, the bill of lading, the invoice, the insurance policy, and the relative shipping documents, are handed to the banker, who, after he has satisfied himself that they are all in order, will do the rest.

In order that the importer may get the goods with the least delay, and the exporter his money at once, the importer may resort to what is called documentary credits. This method of procedure is something as follows: The importer arranges with his own bank to authorise, say, a London bank (by cable frequently)

to buy the particular exporter's bill of exchange up to a stated amount, in exchange for the necessary bill of lading and shipping documents. The foreign bank makes its own stipulations with its customer in regard to this documentary credit. The effect as regards the exporter is that he gets payment for his goods immediately the shipment is ready.

He will probably be asked to sign a letter of hypothecation. "This document, shorn of all its technicalities, is simply a certificate attached to the bill of exchange; it is signed by the drawer, and describes the nature of the shipment, quantities, etc. This letter of hypothecation states, first, that the bill of lading is lodged as collateral security for the acceptance and payment of the draft; secondly, that in case of dishonour, the holder is authorized to dispose of the goods, and to apply the proceeds towards payment of the bill and expenses incurred; thirdly, that the drawer holds himself liable for any deficiency, and agrees to pay it on demand. When an exporter sells a number of bills of exchange to a bank, a general or 'blanket' letter of hypothecation is given, and is made to apply to any and all of the bills of exchange purchased from that exporter from time to time."¹

These documentary credits are largely made use of in trade with India, China and the East. There are various kinds of these credits (*e.g.*, revocable and irrevocable). "To an exporter the confirmed (or irrevocable) documentary credit is the most desirable of all methods of obtaining payment, except cash in advance. There is no question of loans, advances, or securities—he receives the full amount of his invoice immediately he presents his documents, and all loss of interest falls on the buyer; but it necessitates persuading the buyer to adopt it. This

will be dependent upon the position of the exporter—whether he is able to dictate to his customers, or has to go out of his way to obtain their orders. Both buyer and seller will realize that whatever mode of payment is agreed upon, it should be clearly indicated in the contract."²

There are many foreign importers, of course, who have arrangements with a London house, or agency, to confirm their orders, and with powers to accept bills covering the purchaser.

Exchange rates and foreign currency frequently complicate the financial machinery. If an exporter has quoted his foreign customers a price in sterling, the payment is to be made in sterling. If the quotation has to be made (as it often has) in the currency of a particular country, payment will be made in such currency. In such cases the draft, or the bill of exchange, must be drawn in that currency. Fluctuations in exchange, therefore, have to be reckoned with. Up to a certain point the exporter's bank may safeguard him against such fluctuations by arranging beforehand a "Forward Exchange," which means the bank will arrange the credit at the rate of exchange agreed, and hold it at the disposal of the exporter, who may thus safeguard himself against the risk of the exchange going against him after he has fixed a price to his customer.

Government Assistance

For some years past the British Government has experimented with various financial schemes designed to assist the export trade of this country. The idea has been to assist manufacturers to extend their export trade in a way which they might not be able to undertake without such financial facilities as is offered under these schemes. The arrangements are under the Department of Overseas Trade (Export Credits Department),

Meanwhile the Eric Company necessarily incurred certain expenses in shipping the goods which have been

charged against the Consignment Account in their ledger, which would now appear as follows :—

Dr. CONSIGNMENT ACCOUNT (PETER FINLAY, MELBOURNE). Cr.

| | | £ | s. | d. | | | £ | s. | d. |
|----------|---|-----|----|----|----------|-----------------|-----|----|----|
| Nov. 10. | To Goods . . . | 650 | 0 | 0 | March 1. | By Net Proceeds | | | |
| | „ Freight . . . | 12 | 15 | 0 | | as Account | | | |
| | „ Insurance . . . | 5 | 1 | 0 | | Sales . . . | 838 | 11 | 7 |
| | „ Sundries . . . | 1 | 11 | 0 | | | | | |
| | „ Profit trans- ferred to Profit and Loss a/c . | 169 | 4 | 7 | | | | | |
| | | 838 | 11 | 7 | | | 838 | 11 | 7 |

The only entries required for the personal account of Peter Finlay are shown below. It will be noticed from the Account Sales that Finlay accepted The Eric Company's draft for £600 when the consignment was received by him. For Finlay's guidance and information the Company would send him a *pro forma* invoice with the consignment along with a Bill of Exchange for £600, which

Finlay accepted on the security of the goods (or the money may have been advanced to Finlay by his bank, if his credit was good). Finlay's personal account is, therefore, credited with the amount of his draft. When the Account Sales is received Finlay's account is debited with the net proceeds, viz. £838 11s. 7d., leaving a balance of £238 11s. 7d. due by him, thus :—

Dr. PETER FINLAY (CONSIGNMENT ACCOUNT). Cr.

| | | £ | s. | d. | | | £ | s. | d. |
|----------|--------------------|-----|----|----|----------|-----------------|-----|----|----|
| March 1. | To Account Sales . | 838 | 11 | 7 | Jan. 5. | By Draft . . . | 600 | 0 | 0 |
| | | | | | March 1. | „ Balance c/d . | 238 | 11 | 7 |
| | | 838 | 11 | 7 | | | 838 | 11 | 7 |
| March 1. | To Balance . . . | 238 | 11 | 7 | | | | | |

It will be noticed in the Account Sales that Finlay, in addition to his commission of $2\frac{1}{2}\%$, credits himself with a further *Del Credere* commission, which means that, in consideration of this commission, Finlay took on himself the responsibility of losses arising from bad debts. In normal circumstances the consignee is not responsible for bad debts because he sells the goods *as agent* for the consignor; the latter, in order to be relieved of such possible losses, may, as in this case, arrange for a special commission

whereby the consignee assumes the risk of bad debts. Such an arrangement is termed *Del Credere*.

Other matters pertaining to Agencies and Consignments, Shipping, Bills of Lading, etc., are dealt with elsewhere. Here we are merely concerned with book-keeping.

The case of an agent *receiving* goods on consignment for sale on behalf of another person presents no difficulty. If he incurs certain expenses on behalf of the consignor he will simply debit these to the consignor's Personal

Account, also any payments he makes to the consignor. The account is finally credited with the net proceeds realised. Thus, assuming

R. Creedy & Co. to be the consignees, or agents, and F. Bailey & Co. the consignors, the account in Creedy's ledger would be as follows :—

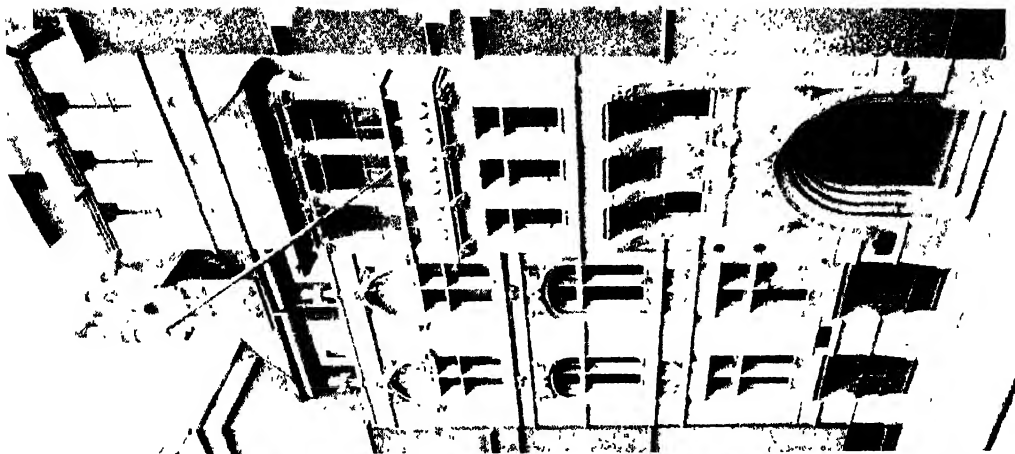
Dr. F. BAILEY & CO. (FOR CONSIGNMENT EX. S.S. "SULTAN"). Cr.

| | | £ | s. | d. | | | £ | s. | d. |
|---------|-----------------------------|-----|----|----|----------|--------------------|-----|----|----|
| Jan. 1. | To Draft | 500 | 0 | 0 | March 4. | By Proceeds as per | 715 | 12 | 6 |
| " 5. | " Landing Charges | 3 | 6 | 0 | | Account Sales | | | |
| | " Storage and Insurance . . | 15 | 1 | 0 | | | | | |
| | " Commission . . | 26 | 10 | 0 | | | | | |
| | " " <i>Del Credere</i> . . | 6 | 12 | 6 | | | | | |
| | " Cash remitted . . | 164 | 3 | 0 | | | | | |
| | | 715 | 12 | 6 | | | 715 | 12 | 6 |

No Consignment Account is required in the ledger of the consignee or agent. The goods are held on behalf of the consignor and it is sufficient for the consignee to enter the particulars of the goods so held in a warehouse book merely as a

record. When the goods are sold the procedure is exactly the same as the merchant making an ordinary sale; the personal account of the purchaser is debited, the credit entry being represented as above in F. Bailey & Co.'s account (proceeds as Account Sales).





ON THE LEFT, HEADQUARTERS OF THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MOORGATE STREET, LONDON, E.C.
ON THE RIGHT THE HEADQUARTERS OF THE CHARTERED INSTITUTE OF SECRETARIES, LONDON WALL.

CHAPTER IV

THE DUTIES OF A SECRETARY*

HORACE COLE, F.C.I.S.

Qualifications of the Efficient Secretary—Duties and Responsibilities—Secretaries of Limited Companies—Company Meetings—Transfer of Shares—Decease of Shareholders—Dividends—Annual Returns—Private Companies—Finance—Income Tax.

THE qualifications of an ideal Secretary are far-reaching. A great deal, of course, will depend on the responsibility attaching to the position he holds. A business of modest dimensions does not make the same demand on the intelligence, the personal qualifications, the business knowledge, the familiarity with technical subjects, which is essential in the secretary of a large limited liability company. In extensive concerns, the secretary's duties are extremely varied and extend over a great many subjects.

A secretary, in the course of his work, comes into touch with all kinds of people and he has to exercise much tact and good temper, judgment and discretion of no ordinary kind; he must be exact and reliable, clear-headed and methodical.

The Custody of Documents

The unmethodical person will never make a good secretary; the very nature of his work demands that he should be able to lay his hands on all kinds of documents at a moment's notice. These documents, of which he has the custody, may be agreements, contracts, insurance policies, state-

ments, statistical returns and summaries, legal documents, leases, official correspondence, accounts and numerous other things to which constant reference is necessary by various people. If there is delay and flurry before access can be had to such information, ill-temper and confusion inevitably arise.

Personal Memoranda

A secretary must be methodical also in keeping his own personal memoranda; he must have records that will automatically keep him informed when agreements expire, or need renewing, when insurance policies expire or premiums fall due, and so with all similar periodical renewals or payments; the omission to provide for such things punctually will frequently lead to serious results.

He will provide himself with separate portfolios to keep together all documents relating to distinct subjects for handy reference, and so prevent papers going astray. It is essential to file and docket all papers relating to the same subject in this or a similar way.

He will also keep some form of diary that will automatically bring before his notice all matters that require attention on given dates. Too much attention cannot be given to proper methods in things of this kind, as a multitude of details claim a secretary's attention, the essence of many of them being prompt attention. They may embrace items for the

* At the date of writing, December 1928, the Companies Act, 1928, has been passed, but the provisions of this Act, with the exception of Section 92 (offer of shares for sale from house to house) will not come into operation until a new Consolidating Companies Act has been passed. When the provisions of this new Act become operative the consequential alterations will be made in the Article "THE DUTIES OF A SECRETARY."

board meetings, the due dates of accounts and bills of exchange, of insurance premiums, expiring agreements, and so on.

There are often agreements with managers and heads of departments containing a clause limiting their powers of action, especially as regards incurring expense beyond a figure named, without express authority. It may not be easy for a secretary to see that such authority is not exceeded, but he must keep his weather eye open to all such things.

An Official Capacity

The secretary is the official representative of the business, or company, in many ways, and the custodian of confidential documents and information. He is the person served with legal notices and official communications, all of which want prompt and proper handling. He has to deal with auditors, with the bank, with income tax assessors, with landlords, with solicitors, with managers, employees and so forth.

In many instances, also, he is responsible for the organisation and work of the counting house staff. Amongst the fundamental requirements of a secretary is a proficient knowledge of book-keeping, accountancy and finance. He should also possess a knowledge of company law and mercantile law.

Chartered Institute of Secretaries

It is very desirable that every secretary holding a responsible position with a large concern should have the qualifications and the knowledge necessary to pass the final examination of such a body as, say, the Chartered Institute of Secretaries.

The Chartered Institute of Secretaries was founded in 1891, and it is charged by its Royal Charter with the duty of improving the professional equipment of people engaged in secretarial occupations, for which purpose it has devised very practical

examination tests which are held half-yearly at various centres throughout the kingdom.

The examinations of the Institute are the Preliminary, in subjects of general education; the Intermediate, in professional subjects; and the Final, also in professional subjects.

The following subjects are compulsory :—

1, Commercial Correspondence; 2, Secretarial Practice; 3, Commercial Arithmetic; 4, Book-keeping and Accounts, and the preparation of statements for Income Tax Assessment; 5, Mercantile Law; 6, Law and conduct of, and procedure at, Meetings; 7, One of the following subjects: The Law relating to Companies, to Real and Personal Property, to Railways, to Shipping, to Gas, to Water or Electricity Supply or other similar undertakings, to Insurance, to Local Government and Municipalities, to Education, to Lunacy, or other Branch of Law approved by the Council; 8, One of the following subjects: Economics, or French, Spanish, Italian, German, Russian or other foreign language approved by the Council, including an oral examination.

The Institute holds conferences and other meetings from time to time for the discussion of professional affairs and to ascertain and notify the law and practice relating to all things connected with the Secretarial profession.

Legal Matters

In addition to a knowledge of the Companies Acts, the secretary should also make himself acquainted with the Registration of Business Names Act, 1916; the Particulars of Directors Act, 1917; the National Health Insurance Acts and the National Unemployment Insurance Acts, also the Stamp Act, 1891, the Income Tax Consolidation Act, 1918, and the various Finance Acts since that date.

THE DUTIES OF COMPANY SECRETARIES

As most large industrial and commercial businesses are now limited companies, we shall deal with the duties of a secretary of limited companies in more detail. A secretary must make himself familiar with the statutes relating to limited liability companies; for he holds a legal as well as an official position.

Although a secretary must carry out the instructions of the board of directors, he must be careful not to commit a breach of the law. There are many responsibilities placed upon him by the Companies Acts. He is personally liable for many fines and penalties for non-compliance with the requirements of the statutes.

Under Section 281 of the Companies (Consolidation) Act, 1908, he is, for example, made liable should his name appear on the face or any part of a prospectus inviting subscriptions for shares from the public, or on a report, balance sheet, or certificate containing a false statement. If he knows it to be false he is liable on conviction on indictment to imprisonment for a term not exceeding two years, and on summary conviction to a term not exceeding four months, or to a fine not exceeding £100.

He will become personally liable if he omits the word "Limited" from the name of the company upon any bill of exchange, promissory note, cheque or order for money or goods, unless the company pays the amount.

Duties under the Companies Acts

If the secretary is appointed to a company in the course of formation, it is his duty to see that all documents are registered and filed in compliance with the legal requirements.

When registration of a company has been effected, and the certificate of incorporation received from the Registrar of Joint Stock Companies at Somerset House, his own appoint-

ment as secretary should be passed by the board.

He must see that the company's name is displayed outside the office, and that it states that it is the registered office of the company; also that stationery, invoices, cheques, etc., bear the full name of the company; in particular that the word "Limited" appears.

The secretary is one of the officers liable to penalties for not making proper returns of allotments of shares and for not filing the contracts for the issue of fully-paid shares. He is also one of the persons who may make a statutory declaration that the prescribed conditions for commencing business have been complied with.

Directors' Meetings

The secretary should acquire an exact knowledge of the Memorandum and Articles of Association of the company. His knowledge of these should be so thorough as to enable him to point out to the board any decisions of theirs which appear to be *ultra vires*. It is the business of the secretary to call the meetings of the board of directors. He prepares the agenda for these meetings, entering the items on the notice calling the meeting, and in an agenda book, or on agenda sheets. He should also see that a quorum of Directors is present before the business before the meeting is proceeded with.

Proper notice of meetings must be given to each member of the board, or of meetings of any committee of the directors appointed by the board. There is nothing illegal about a verbal notice, but written notices are almost general and are always desirable. There is no necessity to send a notice to a director if he is absent from the United Kingdom. It has been held that business done at a meeting of which proper notice had not been given was invalid.

It is the secretary's duty to see that every member of the board is given

notice, as no board has the right to exclude any one of their number. It is not necessary to state on the notice all the business that may come before the meeting, but when any special business is to be considered an intimation of that business should be given. A specimen of the notice that can be employed is as follows :—

THE M.N.O. COMPANY, LTD.

A Meeting of the Directors of the Company will be held at 27 Park Street, Strand, W.C., on the 15th March, 192—, at 12.0 noon. •

JOHN JONES,
Secretary.

AGENDA

1. Minutes of last Meeting to be read and approved.
2. Cash Account, Bankers' Statement and/or Pass Book.
3. Accounts for payment to be delegated to Committee of Directors.
4. Transfer Deeds to be approved
5. Share Certificates to be sealed. ✓
6. Appointment of Manager (or other officials) to be approved.
7. Monthly Interim Trading Account.
8. Statistical Weekly Statements.
9. Lease of Premises to be considered.
10. Any other business that may arise.

Minutes of Meetings

All limited companies are required to keep minutes by Sec. 71 of the Companies (Consolidation) Act, 1908, which provides that every company shall record minutes of all proceedings of general meetings and of its directors or managers to be entered in books kept for that purpose.

The same section provides that minutes, when signed by the chairman of the meeting at which they were passed, or by the chairman of the next succeeding meeting, shall be evidence of the proceedings.

Until the contrary is proved, every general meeting of the company, or meeting of directors or managers, in respect of the proceedings whereof minutes have been so made, shall be

deemed to have been duly held and convened, and all proceedings had thereat to have been duly had and all appointments of directors, managers or liquidators shall be deemed to be valid.

The minutes are written up by the secretary from the agenda book, which contains the notes of the chairman, or from notes taken by the secretary. The agenda book is ruled so that the opposite page in which the items are entered is left blank for the chairman to enter his memorandum. The minutes should follow the order in which the business was taken at the meeting. The secretary must make a record of all directors attending. The subject matter of such minutes should be noted in the margin (and indexed) and the exact wording of any resolution passed should be recorded.

There is an art even in writing minutes. They should be concise, clearly expressed and definite in wording and meaning. Disputes and misunderstanding are not uncommon by reason of the unfortunate wording of decisions arrived at; the secretary should be perfectly clear as to the exact intention of a decision.

The minutes being approved, the chairman signs them, adding the date of signature. The minutes will state "that the minutes of the preceding meeting were read and signed as correct." After the minutes are signed no secretary must ever alter them; any alteration of a resolution or decision must be the subject of another minute of a meeting where such alteration of a decision was arrived at.

No discussion on the subject matter of the minutes of a previous meeting is in order except on the point of their accuracy as to what took place. Any alteration made should be initialled by the chairman. The subject matter, of course, can be raised afresh as part of the business of another meeting.

"THE COMPANIES ACTS, 1908 TO 1917."

FORM E

As required by Part II of The Companies (Consolidation) Act, 1908 (Section 26),
and The Companies (Particulars as to Directors) Act, 1917

Summary of Share Capital and Shares

National Paper Mills
LIMITED,made up to the Sixth day of September 1927.
(Being the Fourteenth Day after the date of the First Ordinary General Meeting in 19).

| | | | |
|--|--|-----------------------------------|--------|
| Nominal Share Capital, £ 400 000 divided into* | 200,000 Ordinary 200,000 Preference | Shares of £ ^s { 1 1 | each. |
| Total Number of Shares taken up* to the <u>Sixth</u> day of <u>September</u> 1927 | 150,000 Ordinary 200,000 Preference | | |
| (Which number must agree with the Total shown in the List as held by existing Members) | | | |
| Number of Shares issued subject to payment wholly in Cash | | 300,000 | |
| Number of Shares issued as fully paid up otherwise than in Cash | | 50,000 Preference | |
| Number of Shares issued as partly paid up to the extent of | per Share | Nil | |
| otherwise than in Cash | | | |
| † There has been called up on each of 150,000 Ordinary Shares | | £ 1 | |
| " " " " 150,000 Preference " | | £ 1 | |
| | | £ | |
| ‡ Total Amount of Calls received, including Payments on Application and Allotment | - £ | 300,000 | |
| Total Amount (if any) agreed to be considered as paid on 50,000 Preference Shares | | £ | 50,000 |
| which have been issued as fully paid up otherwise than in Cash | | | |
| Total Amount (if any) agreed to be considered as paid on | Shares which have been | £ | Nil |
| issued as partly paid up to the extent of | per Share otherwise than in Cash | | |
| Total Amount of Calls unpaid | | - £ | Nil |
| Total Amount (if any) of sums paid by way of Commission in respect of Shares or | | £ | Nil |
| Debentures or allowed by way of Discount since the date of last Summary | | | |
| Total Amount (if any) paid on | Shares forfeited | - £ | Nil |
| Total Amount of Shares and Stock for which Share Warrants to Bearer are | Shares £ | Nil | |
| outstanding | Stock £ | Nil | |
| Total Amount of Share Warrants to Bearer issued and surrendered | Issued - £ | Nil | |
| respectively since date of last Summary | Surrendered £ | Nil | |
| Number of Shares or Amount of Stock comprised in each Share Warrant | Number of Shares | Nil | |
| to Bearer | Amount of Stock £ | | |
| Total Amount of Debt due from the Company in respect of all Mortgages and | | | |
| Charges which are required (or, in the case of a Company registered in Scotland, | | £ | Nil |
| which, if the Company had been registered in England, would be required) to be | | | |
| registered with the Registrar of Companies, or which would require registration | | | |
| if created after the First day of July, 1908 | | | |

NOTE.--Banking Companies must add a List of all their Places of Business.

* Where there are Shares of different kinds or amounts (e.g. Preference and Ordinary or £10 and £5), state the numbers a
also separately

† Where various Shares

‡ Include what has been received on forfeited as well as on existing Shares

|| State the Aggregate Number of Shares forfeited (if any)

The Return must be signed at the End, by the Manager or Secretary of the Company

Presented for filing by

John G. Birch, Secretary.
National Paper Mills
156 Hollywood House
London, E.C. 6.

Giving Effect to Resolutions

It is the secretary's duty to see that the resolutions of the board of directors are given effect to, or, as the case may be, conveyed by him officially to the persons whom the resolutions may concern, and whose duty it may be to give effect to them.

It falls upon the secretary to carry out the instructions of the directors to the best of his ability. In doing so he may have to draft letters, agreements and other documents, or see that they are done and completed; or he may have to conduct certain specific negotiations as the representative of the directors.

That the secretary of a company should be competent is important. A company cannot repudiate any act of his which comes within the limits of the duties entrusted to him; this does not apply, however, to any irregular act he may commit outside the scope of his duty.

Intelligent Anticipation

Whenever there are subjects on the agenda on which detailed information may be of service to the directors, the efficient secretary will have anticipated the requirements by informing himself of whatever precise knowledge he can acquire.

There are many occasions on which the secretary, by supplying information on the spot, can facilitate the consideration of points under discussion, and by doing so save much time at board meetings. He must keep trace of all subjects discussed at board meetings which are not finally disposed of but adjourned for further consideration.

Indeed, it is by arming himself with much varied and special knowledge that a competent secretary distinguishes himself and gains the confidence of the board. Where he can speak with authority and knowledge, he will frequently find himself consulted on many questions. He will be given considerable freedom

of action in details; so valuable is the knowledge of a varied kind that a secretary may acquire, and the business judgment he may develop, that he may ultimately be made a director himself.

No body of directors can be experts on everything; as often as not delay in coming to decisions, or coming to wrong decisions, is due to a lack of exact knowledge, for without full and exact knowledge no one can offer a sound judgment on any problem.

There is frequently at least something on the agenda of directors' meetings about which a question will be put to the secretary. For example, transfers of shares will come before the board to be passed. A director may want to know the average price at which the company's shares are changing hands, or the quoted price at the moment.

This may lead to supplementary questions. What price were they a month ago—six months, or twelve months previously? The discussion may extend to many things somewhat remote from the business under consideration. Although the secretary may realise the desirability of expediting meetings, and keeping discussion strictly to the thing in hand, he can render good service by keeping himself well informed on everything that is likely to come within the sphere of directors' meetings.

He will also probably be asked for information on financial points, and for estimates of cash requirements over a period. It falls on him, too, to recommend placing money on deposit when there is a surplus on current accounts; the question of investments will also arise from time to time.

All of which goes to show how desirable it is for the secretary to be thoroughly conversant with all questions of this kind, and all other matters that may come before him in his official capacity.

What applies to management and heads of departments applies to a

secretary; as always, it is not the perfecting oneself in the mechanism of business and routine that counts, so much as the constant exercise of natural intelligence and the play of a keen mind.

We have said enough to indicate the general qualities desirable in a wide-awake secretary, and may now turn to the consideration of some of his more specific routine duties.

Office Organisation

The subject of the organisation of accounts is dealt with in another chapter.* This generally comes within the province of a secretary, except where the secretary's department is self-contained, and distinct from the general counting house and accountancy department.

If the accountant is on the staff of the company, it will be his duty to supervise and control the work of the counting house. The division, and sub-division, may go even further in very extensive concerns, but it will be more convenient here, for the purposes of illustration, not to over-elaborate departments. Adaptation is not difficult where principles are well understood.

The competent secretary will satisfy himself that the best book-keeping methods and the best system of organising the work of the clerical staff are in operation. Where the business is a large manufacturing and trading concern as well, the work will be more than one man can tackle. But, as we have said, adaptation and division of departments are not difficult.

If the secretary is taking a new post, the first thing he would do would be to thoroughly investigate the methods and organisation of the counting house. He would see that each clerk had his own definite responsibilities; he would see that all ledgers were arranged on the self-balancing principle; he would make certain that there was a clear line of demarcation between the cashier's

particular books and the ledgers; no cashier or petty cashier in charge of a cash book should have control over any of the ledgers.

He would satisfy himself that the balances of the bank pass book and the cash book were properly verified. He would see that proper steps have been taken for responsible persons to pass all invoices, and statements for payments of every kind. This is generally too big a job for the principals or general managers to concern themselves with, and it must be left to some other official.

The secretary will cause to be furnished to him at stated periods a list of all overdue accounts, with reports thereon. He will also satisfy himself that the system of paying wages and salaries is efficient and thoroughly reliable; in particular, he will see that there is no loophole for collusion between time-keepers and the pay clerk.

This is only a summary of the multiplicity of things a competent secretary will consider himself responsible for; these last-mentioned subjects and other matters are dealt with in more detail in another chapter. Wherever possible, a system of "internal check" to provide against dishonesty, slackness, error and disorder should be provided for.

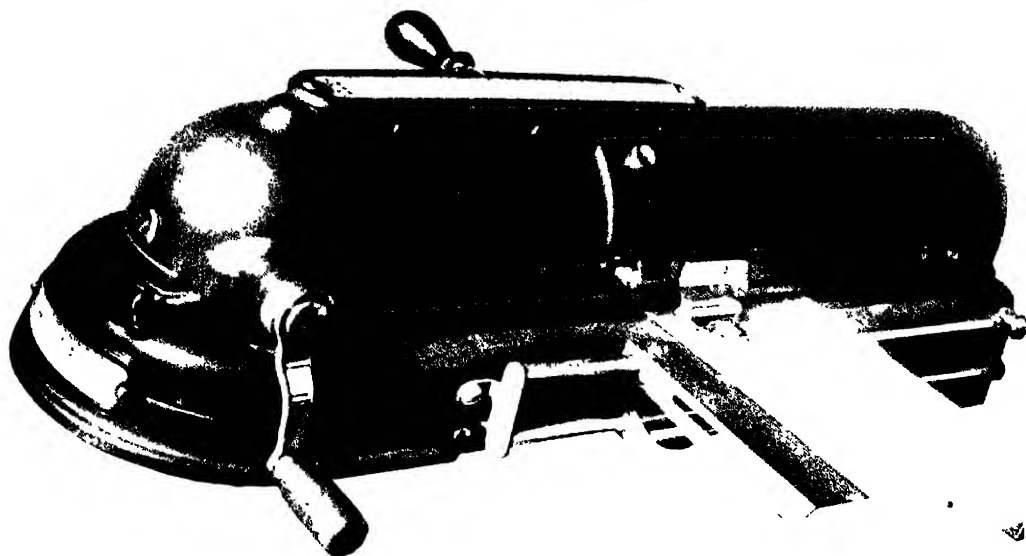
In the case of limited companies regulations are laid down by the directors for the payment of accounts and the signing of cheques, the discounting of bills and dealings with the bank; some of the systems adopted are explained in another chapter.

Signing Documents

Amongst the duties of a Secretary is the signing of all official documents "for and on behalf of the Company"; the absence of these, or some other words to the same effect, may render the signatories to a cheque personally liable for the amount named.

Usually cheques, bills of exchange, etc., are signed by two directors

THE PROTECTOGRAPH CHEQUE WRITER



Imprints the actual amount as shown below.

ONLY FIFTEEN POUNDS FIFTEEN SHILLINGS

THE PROTECTOGRAP



This machine, which, like the one above, is supplied by Messrs. Halsby & Co., Ltd., prevents any alteration to the amount of a cheque, by imprinting a "locking line" thus:

NOT OVER TWELVE POUNDS

(but not always) and the secretary. The bank will be in possession of the signatures of all the directors having authority to sign cheques. It is important that the secretary should officially inform the bank of all regulations and changes of regulations made by the directors for signing cheques, and of the death or the retirement of any director.

Every secretary should make himself thoroughly familiar with such points in banking law and practice as affect industrial and commercial business.

The secretary may have delegated to him authority to execute and sign contracts and agreements on behalf of the company. In special cases of this kind, the secretary must see that authority is properly conferred upon him by express resolution of the board. Any contract which, if made between private persons, would be by law required to be in writing, and according to English law to be under seal, is binding only if executed under the common seal of the company.

The regulations with regard to the use of the seal of the company and the signing of documents are explained elsewhere.

The secretary of a company is under obligation to see that no balance sheet is issued, circulated, or published, without being signed by two directors on behalf of the board, with the auditor's report attached thereto, or containing such report as is required by statute.

Other duties which devolve upon the secretary of a limited company in connection with the annual accounts and general meetings of the company include the following :—

General Meetings

The secretary is responsible for dispatching the proper notices of all shareholders' meetings to those shareholders entitled to receive them.

The address of the registered office of the company must be given and the word "Limited" must appear in all

notices sent out. He must not send out any notice without being authorised by the board, and it is therefore usual to affix the words "By Order of the Board" at the end of the notice and before the signature of the secretary.

He must take care that the proper notice of a meeting is given, and that the notices are sent out in good time. Proceedings at a shareholders' meeting not properly convened are invalid. The Articles of the Company usually require seven days' notice at least. This means seven clear days; neither the day of the service nor the day of the meeting must be counted in the seven days. In some cases the articles, however, provide that the day of receipt of notice shall be counted, but not the day of the meeting. This means that it would be necessary to post the notices eight days before the day of the meeting.

The notice of a meeting should state the place, day and hour of meeting; and the general nature of special business must be given.

A general meeting of every company must be held at the least once in every calendar year, and not more than fifteen months after the holding of the last general meeting. In default of calling such meeting, every director, manager or secretary, knowingly a party to the default, is liable to a fine not exceeding fifty pounds.

Proceedings at Shareholders' Meetings

The proceedings at the annual meeting of a company are usually of a recognised formal nature. The articles of a company usually indicate what shall be deemed "special" business; for such "special" business an extraordinary general meeting is called, and therefore "special" business is not transacted at the ordinary general meeting.

Here the business usually dealt with is the consideration of the accounts, the directors' and auditors' reports, the sanctioning of dividends, the election of directors, auditors and

other officers, and any other "ordinary" business. Other particulars of proceedings at shareholders' meetings are given in the chapter on Limited Liability Companies in Vol. I.

A meeting has no power to pass any resolution outside the scope of the notice. If the articles allow, two meetings may be convened by one and the same notice, but in the absence of such a provision two meetings cannot be convened by the same notice, if the second meeting is to be held contingently on the resolution being passed by the requisite majority at the first meeting.

If a second meeting is to be held, care must be taken that an interval of not less than fourteen days, nor more than one month, elapses from the date of the first meeting.

If proxies are sent in by shareholders for voting purposes, the secretary will examine them. He will also take steps to see that those attending the meeting are entitled to attend.

A copy of the annual report sent to the shareholders, with an accompanying statement of accounts, has to be laid on the table at the annual meeting. The report issued to the shareholders deals with the results of the year's trading, and also contains whatever other information the directors may think proper to give to the shareholders.

It also contains recommendations as to payment of dividends and the disposal of the profits. The report is sometimes signed by the chairman, but more usually by the secretary. The balance sheet is generally signed by two directors and the secretary, and the auditors' report must be attached to it.

Extraordinary General Meetings

The secretary who has made a study of the Articles of his company, and who is thoroughly well acquainted with the Companies Acts, will know in what circumstances an extraordinary general meeting of share-

holders is necessary, and the nature of the business that requires to be transacted at such meetings.

It is the business of the directors to call extraordinary general meetings when they think fit. The secretary, however, will know that the directors are under obligation to convene such a meeting on the requisition of the holders of not less than one-tenth of the issued share capital of the company upon which all calls have been paid.

It is the duty of the Secretary to file with the Registrar of Companies printed copies of all extraordinary resolutions within fifteen days after they have been passed by the Company. Where the Articles of the Company have been registered a copy of every special resolution must be annexed to every copy of the Articles issued after the passing of the resolution.

Share Register

There are certain books which every company is compelled to keep by the provisions of the Companies Act. In large companies they are under an official called the Registrar. These books and their detailed requirements are explained in the chapter on Limited Liability Companies.

Amongst them is the Share Register, which contains particulars of the individual shareholders and their holdings. Great care must be taken by the secretary to see that this register complies with all the requirements. There is a penalty of £5 per day for neglect in keeping a proper register.

The register should be in charge of a capable person, as any error, or confusion, will result in the waste of much time when lists are being prepared for the payment of dividends. No erasures should be permitted in this book.

An index to the share register, although not compulsory by the Act, is very necessary. Companies having

Register of Directors

Limited,

Names &c. of the *Directors of The Oil Refineries
on the Twenty Ninth day of September, 1927.

*The Special Ordinary Name of Name
and Surname

*The Special Ordinary Name of Name
and Surname

*The Special Ordinary Name of Name
and Surname

*The Special Ordinary Name of Name
and Surname

*The Special Ordinary Name of Name
and Surname

*The Special Ordinary Name of Name
and Surname

Wilson, Charles Seymour

Anderson, Samuel

Tago, Henry Goodman

Thomson, Frank Snyers.

Allwin, John.

British

British

British

British

British

6 Mount Street.

Bognor Sussex

19 Brompton Road,

Kensington, London W.

The Langleys, Western Rd.

Highgate, London N

7 West Parade,

Brighton, Sussex

The Grey House,

Windlehurst, Kent

Cotton Manufacturer

Accountant

Merchant

* Director must include any person who occupies the position as a Director and any person in a position of a Company are associated to act
* Director must include any person who occupies the position as a Director and any person in a position of a Company are associated to act
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a big register frequently record various notes relating to the shareholders' accounts in such index, and thus minimise the necessity for continued reference to the register. The index should be kept up to date, the names of all closed accounts being struck out and new accounts entered. The index should be used when envelopes are required to be addressed for notices convening meetings, reports, balance sheets, etc.

Register of Directors

Under Sec. 75 of the Companies Act, a company must keep a register of directors or managers at its registered office. If default is made in complying with this section, the company shall be liable to a fine not exceeding £5 for every day during which the default continues, and every director and manager who knowingly permits the default is liable to a like penalty.

The particulars required to be inserted by Section 75 of the Companies Act, 1908, also Section 1 of the Companies (Particulars of Directors) Act, 1917, and Section 3 of the Registration of Business Names Act, 1916, are:—The present Christian name and surname, any former Christian name or surname, the nationality, the nationality of origin if other than present nationality, the usual residence and other business occupation, if any, of each director.

A copy must be sent to the Registrar of Companies, and it is necessary to notify the Registrar from time to time of any change among its directors or managers. When notice of change is sent to the Registrar a complete list of the existing directors should be given. The offices of the Registrar are at Somerset House, Strand, London, W.C.

Share Transfers

The shares of a company are transferable by one person to another in accordance with the regulations

of the Articles of the company. The transfer of shares is effected by means of a transfer deed. After it has been signed by the seller and purchaser of the shares, it should be sent to the secretary of the company at its registered office.

The name of a shareholder can only be removed from the share register if he transfers, forfeits or surrenders his shares. The transferor remains a shareholder until the name of the transferee is entered in the share register.

As regards shares not fully paid, there are usually restrictions on their transfer, but the regulations of the Stock Exchange require that no restrictions shall be placed on transferring fully-paid shares, otherwise an official quotation will not be granted.

Private companies frequently impose restrictions on transfers requiring the holder to offer the shares to the other members, and in the event of a dispute the matter is referred to arbitration.

The handling of all transfers requires the greatest care and circumspection on the part of the secretarial staff. The usual form of transfer, and a table of stamp duties, are given on another page, as well as further details of the requirements of the Act as it affects the transfer and transmission of shares in a company.

The secretary, or a qualified subordinate appointed for the purpose, will carefully examine every transfer sent in to the office. He will make sure that it is properly filled up, that the names, addresses and descriptions of both parties are correctly stated. Every transfer must be correctly signed by the parties thereto, witnessed and properly stamped with impressed stamps. The secretary is liable under the Stamp Act to a penalty of £10 for every transfer improperly stamped. As the stamp duty is payable on the consideration money, the secretary will satisfy himself that the consideration money named is in order should it happen

to be appreciably below the market value of the shares.

In the case of a transfer of the shares taking place where the consideration is nominal, the stamp duty is 10s., but the secretary must use great care to see that the transaction falls within the proper description. In the event of any doubt, the secretary should require an explanation, and if he is still not satisfied he should require the Board of Inland Revenue's adjudication stamp to be marked on the transfer.

The signature of the registered holder transferring the shares should be carefully scrutinised and compared with that in the company's possession.

Surrender of Share Certificates

The transfer being in order, a transfer receipt should be sent to the person who has lodged it. The certificate representing the shares must be surrendered and should be cancelled immediately, the name of the transferee and number of shares transferred being entered on the back. Most certificates are now specially ruled for this purpose.

A notification should then be sent to the transferor that a transfer has been lodged with the company and that it will be assumed that the transfer is in order unless the company is informed to the contrary.

In the case of joint holders, the notice should be sent to all holders. A plain envelope should be used and no intimation should be given that it is a communication from the company.

The transfer should then be numbered and entered in the transfer register.

Issuing New Certificates

The next procedure is to prepare the new certificates. When these are made out they should be carefully checked in every detail, and the secretary then brings them before the Directors at the next Board Meeting, together with the transfers, where they are approved.

The new certificates are sealed and usually two Directors and the Secretary sign them.

When the transfers have been passed by the Board they are posted from the transfer register to the share register. The new certificates are sent to the transferees or their brokers.

The transfers are afterwards filed away in batches, or pasted in a guard book, and the cancelled certificates should be kept carefully, as they may be required for further reference.

A Balance Certificate

It may be that share certificates will be lodged, of which only a portion of the shares are to be transferred. In such cases, it is usual for the seller, or his broker, to deposit the certificate at the Company's Office, and for the Secretary to certify on the transfer the fact that the certificate has been lodged.

This enables the seller to obtain the proceeds of the sale. A rubber stamp should be used to certify on transfers, the Secretary's signature being added. The following form can be adopted :—

Certificate for the within mentioned shares has been lodged at the Company's Offices.

WM. SMITH,
Secretary.

7/1/26.

A balance receipt, or "balance ticket," is then prepared for the balance of the shares unsold, which is given up when the new certificate for the remaining shares is ready.

A record of certified transfers should always be kept; a convenient method is to keep a Balance Certificate Book in which there will be entered the name of the transferor, the total number of shares covered by the certificate, distinctive numbers, number of shares certified, and distinctive numbers and the name of the broker lodging the certificate. An illustration appears on page 80.

No. 52

BALANCE TICKET.

Date *3rd April, 1925*
Certificate lodged, No. 4312
Ordinary Shares 100
Preference Shares
in name of :—

John Jones

Distinctive Nos.

| From | To |
|-------|-------|
| 5,001 | 5,100 |
| | |
| | |

No. of shares certified 50

Distinctive Nos.

| From | To |
|-------|-------|
| 5,001 | 5,050 |
| | |
| | |

Lodged by :—

Joseph Smith & Son

13 Bishop St.

Liverpool

THE BLACKPOOL RUBBER CO., LTD.

Moorgate

Liverpool.

Messrs. *Joseph Smith & Son*

Certificate for 100 Ordinary Shares in the name of John Jones has been lodged at the Company's Office to meet transfer for 50 Shares.

A Balance of 50 Shares numbered as per margin is held to your order.

New Certificate will be exchanged for this receipt on written request.

WILLIAM JOHNSON

Secretary.

Note.—No transfer of the balance shares above referred to will be certified without the production of this receipt.

BALANCE CERTIFICATE BOOK

| Certificate No. | Date. | Name. | No. of Shares. | Distinctive Nos. | | Balance Receipt No. | Certificate Lodged by | Balance Certificate No. | No. of Shares. | Distinctive Nos. | | Where sent. | Remarks. |
|-----------------|--------|------------|----------------|------------------|-------|---------------------|-----------------------|-------------------------|----------------|------------------|-------|--|----------|
| | | | | From | To | | | | | From | To | | |
| 4312 | 3/4/25 | John Jones | 100 | 5,001 | 5,100 | 50 | 50 | 5403 | 50 | 5,051 | 5,100 | Joseph Smith & Son, 13 Bishop Street, Liverpool. | |

DIVIDEND LIST

| Folio. | Name. | Address. | No. of Shares | Gross Dividend. | Income Tax. | Net Dividend. | No. of Warrant. |
|--------|-------|----------|---------------|-----------------|-------------|---------------|-----------------|
| | | | | | | | |

The law with regard to forged transfers is explained in the chapter on Limited Liability Companies.

Power of Attorney

A shareholder may execute a Power of Attorney to another person to act as his delegate. The document must be in writing, under seal and the signature properly attested. Such a document presented to the Secretary for registration should be carefully perused and he should note particularly the terms of it.

An office copy should be given to the Secretary, as it is quite unreasonable to expect him to copy out all the details of the document. Objection is sometimes raised, but it should be pointed out that it is for the benefit of shareholders themselves that the company is registering the document.

Deceased Shareholders

In the case of a deceased shareholder, his legal representative will apply for probate of the will or Letters of Administration to the proper quarter. The course for the Secretary to adopt with regard to these documents is to make an entry in the share register, noting the date of death of the deceased member, the date when the probate or Letters of Administration were exhibited for inspection, and the names and addresses of the executor or executors, and in the case of Letters of Administration the name of the person who is administering the estate.

A rubber stamp should be used for marking all Probates or Letters of Administration, showing that they had been presented for registration by the Company. It should be in this form :—

BLACKPOOL RUBBER CO., LTD.

Registered.

JOHN SMITH,
Secretary.

26/2/1926.

VOL. II.

This stamp should be impressed upon the document, and then the Secretary should affix his signature and return it to the person who lodged it for registration.

The Secretary should be careful not to enter the representatives in the register as holders of the shares. Section 29 of the Companies Act provides that "A transfer of the share or other interest of a deceased member of a Company made by his personal representative shall, although the personal representative is not a member, be as valid as if he had been a member at the time of the execution of the instrument of transfer."

Executors may, therefore, transfer without being first registered as members, and should they do so, the transferee will be registered in due course.

The executors may, however, make a written request that their names be placed on the share register when they become personally liable, and this may be done without executing the usual transfer. A form that may be used is as follows :

The Secretary,

BLACKPOOL RUBBER CO., LTD.

..... deceased.
..... Shares
numbered

I, (or We) the undersigned,.....
..... of
..... the sole Executor
(or Executors) of and under the will of
....., deceased,
hereby request that my (or our) name(s)
shall be registered in the books of the
Company as an individual (or individuals),
and that the new Share Certificate representing the above Shares may be made out in
my (or our) name(s) as owner(s) thereof, and
not in my (or our) name(s) as sole Executor
(or Executors) of the said.....

Dated this day of 19

Signatures

Should, however, the shares pass to any other person than the executor, a formal transfer is necessary and

should be duly stamped. A specimen signature of the executor or administrator should always be obtained.

Death of an Executor

In the event of the death of a sole executor who has not been registered as the holder, the production of the Probate of his will by his executor entitles him to deal with the shares of the deceased holder.

The administrator of a deceased executor should not be recognised. The person entitled to the unadministered estate of the deceased shareholder must apply for Letters of Administration *de bonis non*, and the Secretary should recognise that person. Neither can the executor of an administrator, nor the administrator of an administrator, be recognised.

In the case of joint holders, or joint executors, if one dies, proof of death (that is, the death certificate) only is necessary, as the shares stand in the names of the survivor or survivors.

Scottish and Colonial Probates

Scottish and Irish Probates and Letters of Administration must be re-sealed in England; English or Scottish in Ireland, and English or Irish in Scotland. Also Colonial

Probates or Letters of Administration must be re-sealed in this country before the representative can be recognised.

Endorsing Certificates

In addition to the note made in the share register (mentioned above), it is usual to endorse the share certificate belonging to the deceased holder to the effect that Probate of the will has been exhibited at the Company's offices, the date when it was exhibited, and the names of the executor or executors appointed under the will. This endorsement must be signed by the Secretary.

The holder's name must not be altered on the face of the certificate. If the executor or administrator of a deceased holder should sell part of the shares he held, the new certificate for the balance must be made out as though the deceased was still alive, but it should be endorsed in the manner already described.

Registration Fees

It is desirable that a Fee Book be kept in which all transfer and registration fees should be entered, the total being carried at stated periods to the General Cash Book.

The following fees are usually charged :—

| | <i>s.</i> | <i>d.</i> |
|---|-----------|-----------|
| For registration of Transfers | 2 | 6 |
| " " " Probates | 2 | 6 |
| " " " Proof of Death in joint holdings | 2 | 6 |
| " " " Request by executors to be placed on the register | 2 | 6 |
| " " " Proof of marriage | 2 | 6 |
| " " " Power of Attorney | 2 | 6 |
| " " " Change of name by Deed Poll | 2 | 6 |
| " " " Notice in lieu of distringas | 2 | 6 |
| " " " Lunacy Orders | 2 | 6 |
| " " " Appointment of Trustee in Bankruptcy | 2 | 6 |
| " issue of Duplicate Certificate | 1 | 0 |
| " " " Split Certificate | 1 | 0 |

Share Certificates

Share certificates, before they are signed and issued to shareholders, should be carefully scrutinised. This is usually done by a second party, generally the accountant, who will verify the number and accuracy of the

shares. Where a Company has more than one class of share, it is desirable that the respective classes of shares for which certificates are issued should be as distinctive as possible. They may be printed in different colours, or in different styles.

Dividend Warrant

THIS PORTION MUST BE RETAINED IF IT IS DESIRED TO CLAIM

REPAYMENT OF INCOME TAX.

No. 2903

GEORGE NEWNES, Limited,

8-II, SOUTHAMPTON STREET, STRAND, LONDON, W.C.2.

FIVE PER CENT. CUMULATIVE PREFERENCE SHARES.

Half-Year's Dividend payable 1st July, 1926,

on 150 Preference Shares of £1 each ... £ 3 : 15 :

Less Income Tax at 4/- in the £ ... £ : 15 :

The amount deducted for Income Tax, as above, will be paid by the Company to the proper Officer for the receipt of Taxes. If you are not liable for Income Tax, the Inland Revenue Department will not claim repayment as a voucher on your claiming repayment.

HORACE COLE, Secretary

£ 3 : - -

To William Hipwood Esq
Lawson House
Fawley Road Gravesend

GEORGE NEWNES, Limited.

DIVIDEND ON PREFERENCE SHARES.

No. 2903

LONDON, 1st July.

To LLOYDS BANK LTD.,

WITH WHICH IS AMALGAMATED THE CAPITAL AND COUNTIES BANK, LTD.,
COVENT GARDEN

Pay to William Hipwood Esq
the Sum of Three pounds

or Order

For and on behalf of GEORGE NEWNES, LIMITED,

£ 3 - 0 - 0

Horace Cole

Payee to sign here

Secretary.

M

This Warrant must be presented for payment within six months.

Ex. A.C.B.

A share certificate is *prima facie* evidence of the title to the shares named thereon of the person whose name it bears. A share certificate requires no stamp, although it is made under the seal of the Company.

Debentures, etc.

The Secretary's duty with respect to procedure in connection with debentures and mortgages is of a similar nature to that of share capital. Full particulars with regard to all these matters is given in the chapter dealing with Limited Liability Companies.

The Declaration and Payment of Dividends

After the payment of a dividend has been authorised by a resolution of the shareholders, the necessary dividend warrants (equivalent to cheques) will be dispatched to the individual shareholders. It may be remarked that articles provide that it is not permissible for shareholders to declare a larger dividend than that recommended by the Directors.

Directors are responsible for any irregular payment of a dividend, and for the fictitious payment of a dividend with the object of enhancing the price of the Company's shares.

It is competent for Directors, if authorised by the Articles, to declare interim dividends at their discretion where profits seem to warrant it.

Meanwhile, before the dividend is paid, the Secretary will have caused detailed dividend lists to be prepared showing the amount payable to each member, or holder of stock. The register of members is usually closed before the annual meeting for the preparation of the dividend.

The lists are generally made out on loose sheets, which will be found more convenient for the writing of the dividend warrants; these sheets are afterwards bound up. The ruling of the lists appears in the form shown on page 80.

The names and addresses, together with the shares held, must be entered from the share register, and then the amount of the dividend is calculated on each holding, the tax deducted, leaving the net amount due.

The deduction of tax from dividends is to be made at the average rate which is in force over the period for which the dividend is paid, *e.g.*, if the standard rate of tax was reduced from 5/- to 4/-, the tax deductible from a half-year's dividend which was paid on the 30th June following would be at the rate of 4/6 in the £.

Companies are now obliged, when they issue a "warrant or cheque or other order, drawn or made, or purporting to be drawn or made, after the 30th of November, 1924, in payment of any dividend or interest," to send a statement at the same time, giving the following particulars:—

1. The gross amount which, after deduction of the Income Tax appropriate thereto, corresponds to the net amount actually paid.
2. The rate and the amount of Income Tax appropriate to such gross amount.
3. The net amount actually paid.

If a Company defaults in complying with these requirements, it will be liable to a penalty of £10 for each offence.

The aggregate amount of penalties in respect of any one distribution of dividends or interest will not exceed £100.

Dividend Warrants

The Accountant will carefully check the lists, and after they have been agreed the dividend warrants should be written. The warrants must be stamped and numbered, and when completed should be checked by the Accountant, who passes them to the Secretary for signature if they are to be signed. It is customary for the warrants to bear a printed facsimile

signature of the Secretary, and to be initialled by the person who checks them.

A form of advice is sent to the Company's bankers giving the names, amounts and distinctive numbers of the warrants. Each list usually contains 100 or more names of holders and is signed by two Directors and Secretary.

A cheque for the total amount of the dividends should be drawn on the current banking account, transferring the amount to a "dividend account." This obviates a great number of cheques passing through the ordinary bank account and pass book, and also saves the Directors signing a multitude of warrants. The total amount having been placed to the dividend account is sufficient safeguard, and frequently the Secretary only signs the warrants.

The warrants are then posted to the holders. In large Companies it is advisable to make them up in batches and send the bundles to the Post Office for franking. Much unnecessary labour is saved if this is done.

In writing out dividend warrants the Secretary must attend to the instructions given by shareholders for the payment of their dividends. Some require them paid direct to their banking account, and others to a particular name or address. The instructions will have been noted in the share register. Obviously, the more shareholders who can be persuaded to have their dividends paid to their bank the better. When a large number of warrants are paid to a particular bank for the account of shareholders whose accounts are with that bank, it is only necessary to make out one dividend warrant for the total amount.

The upper portion of each warrant must be sent to the bank, together with a list of the various shareholders, showing at which branch their accounts are kept. The warrant for the total amount will agree with the total of this list.

In the case of joint holders, it is usual for the warrant to be made payable to the first named, unless instructions are received for payment to be made otherwise.

Lost and Unclaimed Warrants

If a warrant is lost, after having payment stopped at the bank, a duplicate can be sent on receipt of an indemnity which should be signed over a sixpenny stamp.

After the warrants have been presented to the bankers for payment they will be returned to the Company. The returned warrants should be checked with the dividend lists and a summary made of the unpaid warrants.

Unclaimed dividends will remain at the credit of an unclaimed dividends account in the ledger. After twenty years have elapsed the debt from the Company to the shareholder is statute barred.

Notifying the Stock Exchange

With regard to the declaration of dividends, an intimation should be sent to the Secretary of the Stock Exchange (Share and Loan Department) by the Secretaries of all Companies that have been granted a Stock Exchange quotation, notifying him of the declaration of the dividend; it is usual also to send a notification to the Press.

The Secretary will have some acquaintance with Stock Exchange matters and procedure. Every company that wants an official quotation for its shares must comply with certain formal requirements of the Stock Exchange Committee. It is obviously important for a large company to have its shares quoted in the official lists of the Stock Exchange; the selling and buying of the shares is greatly facilitated, and accordingly their value is enhanced, by an official quotation, although unofficial quotations are now very generally printed and published.

To obtain an official quotation, the Company must have been formed in accordance with certain rules laid down. This may provide no guarantee, of course, of the stability of the Company, but it does serve as evidence that certain required formalities have been observed.

Applications for quotations must be made to the Secretary of the Share and Loan Department of the Stock Exchange and must comply with such conditions and requirements as are laid down from time to time. The application must be made by a broker who is a member of the Stock Exchange.

Annual List and Summary

The various documents that have to be filed with the Registrar on the incorporation of a Company are explained in the chapter on Limited Liability Companies.

Every Secretary is required by Section 26 of the Act to file an annual return with the Registrar upon the form prescribed, known as Form E, and give the following particulars:—

(1) The names, addresses and occupations of all persons who are, or have been, members of the Company since the last return, giving the number of shares of each class either held or transferred at the date of the return and the dates when transfer deeds were registered.

The summary must contain the number and class of shares issued otherwise than for cash, and

(1) The total amount of the authorised capital of the Company, and the number of shares of each class into which it is divided;

(2) The number of shares taken from the commencement of the Company up to the date of the return;

(3) The amount called up on each share issued;

(4) The amount of calls which have been received;

(5) The amount of calls remaining unpaid;

(6) The amount of commission paid or allowed for shares or debentures issued since the previous return;

(7) The total amount and number of shares forfeited;

(8) The amount of shares or stock outstanding at date in the form of share warrants to bearer;

(9) The amount of such warrants both issued and surrendered since the last return;

(10) The number of shares or amount of stock represented by each of such warrants issued;

(11) The full amount of any sums owing by the Company carrying a charge against its assets.

This return must be made up as on the fourteenth day following the date of the General Meeting. If more than one General Meeting is held in the year, the return must be made after the first meeting. The Secretary or manager must sign and file it within a further seven days, *i.e.*, twenty-one days after the meeting. Every director or manager who knowingly permits default in filing this return is liable to a penalty of £5 per day.

It is also necessary to file with the Annual Return a statement giving the particulars of the assets and liabilities of the Company, but this statement need not include a profit and loss account. The Registrar also requires the auditor's certificate to be attached to this statement. It is usual to paste the printed balance sheet of the Company on the form, and add any further particulars that may be required, such as whether the fixed assets are shown at cost, and if depreciation has been deducted.

A specimen copy of Form E, which has been filled up as required, is given here.

Private Company Requirements

Private Companies, as previously stated, are not required to file a balance sheet. The annual return should be made up from the register of members, and when completed it

must be copied and the copy should form part of the share register.

If the Company is a private one, a certificate signed by the Director or Secretary must be attached, stating that no invitation to take shares or debentures of the Company has been offered to the public since the filing of the last return or since the incorporation of the Company. As already stated it is also necessary to include a copy in the annual return of the register of directors.

II

FINANCIAL DUTIES

Amongst the Secretary's most important work is the control of finance; it will be only a partial control, for the responsibility for the bulk of expenditure rests with the management.

It will usually come within the province of the Secretary, however, to see that proper methods are employed in dealing with current finance, such as the collection and payment of accounts, arrangements with the bank, and discounting of Bills of Exchange. To what extent the Company will make use of Bills will in principle be settled by the management. Customers may wish to extend their credit by giving Bills, or the Company may wish to do so for a similar purpose.

Bills receivable may be kept by the Secretary until they mature, or they may be discounted by the bank. That is, the bank will advance the face value of the Bills, less a discount; in other words, a charge for interest.

Where the practice is to discount "trade" bills, the discount rate, in ordinary commercial businesses, is a matter of arrangement with the bank. The rate will depend on the reputation and standing of the firm, and is often the subject of bargaining. The discount rates for short dated bills are published day by day in the papers.

A bank will generally grant special terms to a Company or trader whose credit is good, and whose transactions run into substantial figures.

There are, of course, firms of bill brokers whose business is to deal, or trade, in bills of exchange, especially bills drawn on foreign countries. Here questions of foreign exchange come into play. These bill brokers are distinct from discount houses, whose chief business is to procure the discount of bills that have some time to run before they mature. The subject is fully dealt with in another chapter.

It is sometimes possible to obtain better rates from the bill brokers than from the bank. A bank, for a good customer, will probably not charge a commission on the amount of the bill, but in other cases a commission will be charged.

The commission is a sum to be paid in addition to the rate of interest, which is based on the bank rate. For example, if the discount is 5 per cent. and the commission $\frac{1}{4}$ per cent. on a bill having thirty days to run, the customer is paying at the rate of 8 per cent. per annum. If the commission was $\frac{3}{8}$ per cent., the customer or borrower would be paying only $6\frac{1}{2}$ per cent. per annum.

If a Secretary (assuming he is in charge of such things) is asked by a customer to take a bill in settlement of an account, thereby prolonging his credit, he would first satisfy himself of that customer's credit before doing so.

Loans and Overdrafts

One of the objects of a bank is to advance money to its customers; where a firm or company wants a loan or an overdraft the terms are a matter of arrangement. The subject is dealt with in the chapter on Banking.

From what has been said, it will be seen that the proficient secretary may have much to do in keeping the

management and the Directors well informed on financial points from time to time. He will not only prepare information of the actual state of matters on any given date, but he will be prepared to supply a forecast of requirements well ahead of the present needs.

III

INCOME TAX

The preparation of Income Tax returns (which is the duty of either the Secretary or Accountant) is often a difficult and vexatious problem. This subject is very fully discussed in another chapter; it is not one that any Secretary can afford to be ill-informed upon. He should have a complete knowledge of the Income Tax Consolidation Act, 1918; otherwise he will not be capable of drawing up the necessary account for income tax purposes and claiming proper allowances.

The Income Tax Acts regard the Secretary as the agent for the Company, and he is personally liable for default in supplying the information required. Under Section 107 he is liable to a penalty of £20 plus treble the tax which ought to be charged should he default. This penalty cannot be passed on to the Company.

Although Form 1 or 1a is the return required for the assessment of profits under Schedule D, it is customary for the computation to be settled by interviews and correspondence with the inspectors of taxes.

The printed report, balance sheet and profit and loss account are forwarded to the inspector, together with a *detailed* profit and loss account. The inspector has no right to insist upon the production of a copy of the Company's accounts, but it is advisable to supply him with all the information he desires, as the Com-

missioners can on appeal demand the production of the accounts, and all such information which they consider necessary to enable them to settle the appeal. Obviously, therefore, if the inspector and the Secretary of the Company can settle the amount of liability, it is advantageous to all concerned.

Under Section 106 of the Act, the Secretary must see that the Company's tax is paid, and he is authorised to retain out of the Company's moneys which come into his hands an amount which will settle the liability.

The subject bristles with difficulties, but these are dealt with fully in the chapter on Income Tax practice and procedure, which appears elsewhere in this work.

There is another matter in connection with income tax which the Secretary of a Company has to attend to. He is obliged under Section 105 of the Act to make a return of the salaries paid to the directors, and the staff where their remuneration exceeds £160 per annum.

The return must include pensioners, and those who receive payments for part time work excepting for specific fees. The return must be made on the prescribed form and should give a list of the names, addresses and remuneration paid to the employees. A director or manager is regarded as an employee.

In case of default, the Secretary is personally liable, as before, to a penalty of £20 together with treble the tax payable. Half-yearly returns must be made in respect of weekly wage-earners, but this return must not include clerks, typists, draughtsmen or those employed in similar capacities.

Where any remuneration is paid free of tax, the tax is paid by the Company, the amount of the tax being regarded as additional income and assessable to tax.

CHAPTER V

BANKS AND BANKING

BY

WILLIAM F. SPALDING

Fellow of the Institute of Bankers and of the Royal Economic Society.
Hon. Moderator in Banking and Currency to London Chamber of Commerce.

The British Banking System—History of British Banks—Lombard Street—Nature of Banking Business—Opening an Account—Drawing of Cheques—Forgery—Crossing of Cheques—Endorsing of Cheques—Loans and Overdrafts—The Pass Book—Miscellaneous Matters—The Bankers' Clearing House—Country Clearings.

THE British banking system of to-day is a wonderful piece of machinery; it is at once the admiration and envy of the whole world. Its interests are so widespread, its influence so far-reaching, and the sums of money in which it deals so large, that the man in the street may be pardoned if he is a little ignorant of its strength.

The way in which our great banks weathered the blasts of a war which shook to the very foundations the banks, not only of other nations which were engaged in the conflict, but also those of countries far removed from the war, proved to the world that there was not much amiss with the foundations of British banks. It is true, they have of recent years been the object of much criticism; Mr. Runciman at one time considered the London banks to be lacking in the spirit of adventure; while the late Lord Leverhulme described them as "*rabbits tout court*." To which criticism a great banker, Sir Charles Addis, said, the bankers might reply that "the coney is but feeble folk, yet make they their houses in the rocks."

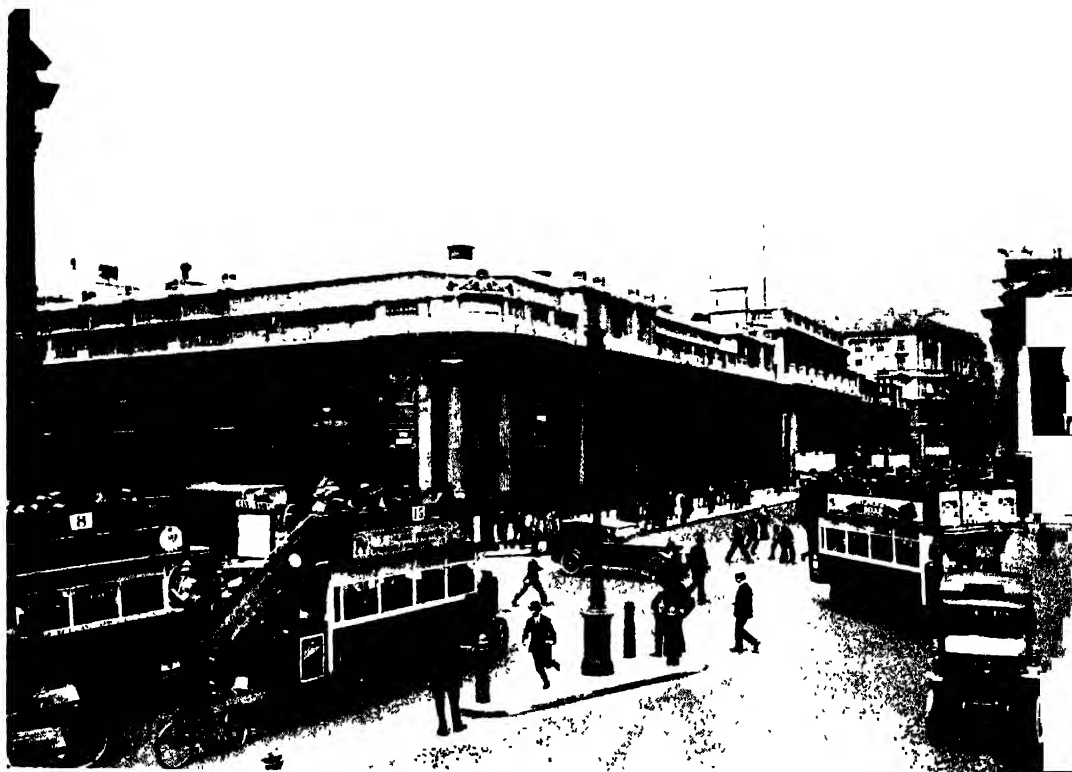
The Magnitude of British Banks

We shall see something of the services the banks render to the

community in the course of this article; but as a preliminary we may say that the operations of our banks are of immense magnitude. In every financial operation of importance in the world we find British banks playing a rôle. The finance of war is still fresh in the public mind; post-war finance is before our eyes.

The banks are to the fore in almost every home financial operation, large or small; not only are they of enormous assistance to the domestic trade and industries of the country, but they are actively engaged in the finance of the foreign trade of the country. Their sphere is extending daily; their operations extend to our Dominions, dependencies and to all parts of the British Empire, and it is undoubtedly due to the banks that London is in the best sense of the word still the international money market of the world, whatever our competitors may say to the contrary.

Well, we live in an age of big things, and the development of British banks in recent years has been one of the biggest marvels of the age. Largely by process of amalgamation, the banking strength of the country has grown day by day, until we find



W. S. Campbell.

BANK OF ENGLAND.

The Bank at the busy corner of Threadneedle Street and Princes Street



Humphrey Joel.

BANK OF ENGLAND

The court-room where every Thursday the directors meet to settle the Bank Rate.

the figures presented by the combined operations of the banks, and the extent of their resources, to be such as would have seemed little short of a miracle to the bankers of a century ago. We go further and say that few could have envisaged in 1913 the enormous growth in British banks and banking, as revealed by the statistics of 1926. Let us glance at a few of the totals.

In round figures, the paid-up capital of forty-six British banks in 1926 was £114,313,000; Reserves, £86,676,000; Notes in Circulation, £178,763,000; Deposits, including undivided profits, £2,429,049,000; Cash in hand and at Bank, £453,633,000; Loans and Advances, £1,365,401,000; Investments, £584,303,000; Bills Discounted, £288,972,000. And, in case anything further be required to convince the reader of the wonderful working of our great banks, we may add, that the total amount of bills, cheques, etc. passed through the London Bankers' Clearing House during the year 1925 was £40,437,119,000, which total, incidentally, was a record in the annals of the Clearing. So much by way of introduction; now to the subject itself.

The great banks in the City of London, or for that matter, those in any large town in the United Kingdom, present to many people just such an air of delightful mystery as did the premises of the forerunners of the banks—the London goldsmiths. The operations to the man in the street are even more mysterious, and he might be pardoned if he echoed the words of the merchant, who in the year 1676 wrote to a country gentleman somewhat as follows :

"These people (the goldsmiths) draw great cash into their coffers, some of them stick to their old trade, but all of them that have friends and credit aspire to this new mystery of becoming bankers or cashiers."

Then, about a century later, we find a speaker in the House of Commons

raising a pertinent query about banks and banking : he said :

"What is it that we call a banker? There is in this City a company or corporation, called goldsmiths, and most of those called bankers are of that corporation : but, so far as I know, there is not a company or corporation in England called bankers, nor has the business any definition or description either by common law or by statute. By custom we call a man a banker who has an open shop, with proper counters, servants, and books, for receiving other people's money, in order to keep it safe, and return it upon demand; and, when any man has opened such a shop, we call him a banker, without enquiring whether any man has given him money to keep or not; for this is a trade where no apprenticeship is required, it having never yet been suggested that a man who sets up the trade of banking could be sued upon the statute of Queen Elizabeth, which enacts that none shall use any art or mystery then used, but such as have served an apprenticeship in the same."

Lombard Street

It seems that the profession of banking has been enshrouded with an air of mystery almost from its infancy, so there is some excuse for that feeling, akin to awe, with which the person who has had no previous dealings with a bank views the art, trade, or whatever one likes to call banking. It may serve to dispel some of the mystery if we give a lightning sketch of the evolution of banking.

Its origin is commonly ascribed to the Lombard Jews of Italy. Banks and banking, however, were of much earlier date. The Chinese had a system of credit-currency between the years 997 and 1022, from which some sort of a banking system was later evolved. The early monetary affairs of the old Greeks were cared for by bankers—termed "trapezitæ," because they sat at tables in the

market places, the centre of all business transactions. They had something in the nature of state banks for the more important business, which was undertaken by the great sanctuaries of Delphi, Delos, Ephesus and Samos; these were much used as banks for loans and deposits, both by individuals and Governments.

The Romans had a highly organized system of finance, and there is little doubt that the development of Roman banking was due to the commercial experience gained from the Hellenized East. It was commerce, in a word, that gave rise to banking—banking, that is, as we know it to-day, and as we hope the reader will know it before he has finished.

To come to our own banking system, even if the Jews of Lombardy were not the first bankers, it is to them that the word "Bank" owes its origin. The term is derived from "banco," an Italian word for bench. The Lombards, like the early Greeks, transacted their business in the market place; they sat at benches to carry on their operations in money, credit and bills. If one of these Jews could not meet his engagements, summary justice was meted out to him, for his "banco," or bench, was broken up by the crowd; hence the term "bank-rupt," a broken bench, from which we get the nasty word which we apply to-day to the person who has to suspend his business operations when he cannot meet his just debts.

The Business of a Bank

We need not dwell further upon the historical side of banking, except to admit that early banking in England seems to have developed from the operations of the Lombards, those strangers who were forced to meet in that narrow thoroughfare in London which took their name—Lombard Street. There they met for the purpose of carrying on and adjusting their bargains, and it fell to

their lot to stand and to walk in the rain more like pedlars than bankers or goldsmiths; but from that humble beginning has arisen the street which probably controls more wealth than any other street in the world. Their operations were very simple, though the populace, then, as now, was always mystified, and doubtless it suited the pseudo-bankers to surround their business with mystery—it made for safety. To-day the primary functions of every bank, whether large or small, are simple, and we need not fear mystery where none exists.

Of what does the business of a banker consist? Purely and simply that of dealing in credit, or as, perhaps, for the sake of clarity, we had better say, dealing with money. One remembers the humorous way in which a present-day banker described his job: "I buy and sell money, just as a greengrocer sells apples." By money he meant, not only the gold, which we see so rarely now-a-days, silver, copper, currency notes and bank notes, but also representative money, that is, all sorts of documents giving the title to money, such as cheques, bills of exchange, promissory notes, and the like.

Bankers to-day do seem to take a delight in surrounding their business operations with a mass of market jargon, but to clear the trade from the wealth of verbiage attached to it, we may at once say that the primary functions of a banker consist of two things—the accepting of deposits and the granting of loans.

Let the reader visit one of our great banks to-day; he will wonder where the business of banking begins and ends. "Current Accounts Department," "Stock Department," "Opinions Department," "Deposits Department," "Outward Bills," "Inward Bills," are a few of the signs that will meet his eye. But, if the visitor will take heart of grace and ponder awhile, he will find that to come to rock bottom, the banker is first and

foremost a dealer in credit, and most of his other operations have credit for their basis.

Lender and Borrower

The business world comprises two sections, those who want to lend and those who want to borrow, and to enable each class to get quickly into touch with the other, the banker acts as the intermediary. He is the dealer in money who is the connecting link between the two parties. But note this, the banker acts in a dual capacity, for he is both a lender and a borrower, and the difference between the rate at which he borrows and that at which he lends constitutes his profit.

In using the verb "to borrow," we do so in the wide sense to describe the receipt of deposits by a bank, generally without interest, and here it is we perceive the primary function of a bank, which is in the receiving of deposits and their subsequent utilization for loans and other accommodation to clients. The receipt of deposits is the most important function of banking, because it entails the bringing into actual use of small sums of money which, without the aid of the banker, would have been hoarded or would have remained unproductive.

By the ingathering of deposits the banker procures the wherewithal for accommodation to those who have need of and can use additional capital to carry on their financial or commercial operations. By effecting the transmission of funds from place to place, the banker also enables money to find its outlet in the most productive channels. The progress of a country, to a great extent, is dependent upon its banking facilities. The absence of banks retards progress, accentuates hoarding, and hinders the development of commerce and industry. That has been demonstrated in countries like India, where great efforts are being made to extend the establishment and use of banks.

There are other related services performed by banks which are perhaps less essential to production, though they are important and useful as subsidiary agents in commerce and industry, and are profitable to the banker. One of these is the issue of notes, which, as it is connected with the more technical side of banking, we propose to dismiss with just a word or two.

The note circulation of banks, which in early banking was thought to be of so great importance, has, as far as the major part of the banking strength of the country is concerned, become insignificant. It has become almost entirely centred in the Bank of England, and as it is possible that the Government's issue of currency notes will also soon be part and parcel of the Bank of England's issue, we need not ponder further on the subject. We may just say that the note circulation is a very well managed and efficient part of the currency system of Scotland. The receiving of deposits and the lending of capital, either direct or by means of loans, and the discounting of bills of exchange have taken the place of the note circulation in joint stock banking.

It has been stated that this practice of receiving deposits and of lending is simple; so simple indeed is it that it was practised long before the establishment of regular banks. That was seen in the early operations of the goldsmiths. The demand for such simple services comes early in the life of every growing community. There are people who have saved and who want to leave their savings with someone else for safekeeping, and once this principle of making other persons custodians for one's accumulated funds develops, there soon arise enterprising persons who see, or who think they see, golden opportunities in business if they can find the funds with which to finance their operations.

Safety First

Now, the first thing a man has to decide, if he has the wherewithal to open a banking account, is, who is to have the custody of his money. Here a word of caution is necessary. The business of banking has been much abused in the past in England, as elsewhere. So let the reader not be tempted by those banking borrowers who seek his custom by unorthodox means. There is really little excuse at the present day for people to entrust their business to other than reputable banks. Certain institutions do from time to time attract a large clientele by specious methods and alluring advertisements.

We may instance the case of the Charing Cross Bank, which failed in 1910 and brought much misery to small business men and others. It transpired that this institution was to all intents and purposes a money lending concern which attracted fairly large deposits, and subsequently embarked them in all sorts of doubtful enterprises. Another so-called bank which was liquidated in 1911 was the Birkbeck Bank; it came to grief mainly through its connection with building trade finance. More recently, in December, 1920, the British public was hard hit by the failure of Farrow's Bank, a concern having a large number of depositors of the small tradesman and artisan class, who also had been induced to lend their money to the bank by the offer of absurdly high rates of interest. These failures gave prominence to the necessity for care in the choice of a bank. Safety first should be the motto.

To-day the banking position of the country is a strong one. It is the day of large banks, and the man who wants to rest comfortable in the assurance that his money is safe cannot do better than entrust his money with one of the big institutions which have branches in every town. At one

time if a man wanted merely to be safe, he looked round for a savings bank; but at the present time all the joint stock banks accept deposits, both large and small, on which they will pay varying rates of interest, according to the amount deposited and the time for which the deposit is to run. The banks undertake banking business of every description; it does not matter whether it be savings bank accounts, current accounts, the finance of the internal trade of the country, the finance of imports and exports, or whether it be the finance of business enterprises, loans, discounts, or foreign exchange operations, the banks stand ready to lend their aid.

Apart from the joint stock banks, there are also the powerful Overseas banks which are occupied more particularly in financing the overseas trade of the country. This being so, a man has little excuse for relying on any but the highest class of bank.

Opening an Account

The first thing, then, is to choose the bank; having done that there are the preliminaries relating to the opening of the account to be gone through. An interview with the banker is essential, and an introduction is usually necessary, either from a person of standing, or from someone known personally to the bank. The first step taken, the rest is comparatively easy. Bankers are an obliging set of fellows, always ready to teach and advise, so the would-be customer need not be afraid to ask for help and guidance.

After the introduction, the banker requires a specimen of the customer's signature, in order that the signature on cheques or other documents which the client may subsequently sign may be verified. The customer must be careful to use the same signature on any instruments he may sign from time to time; failure to observe this elementary rule causes

much trouble both to banker and client.

Most bankers are also careful to get the full names, christian and surname, and the occupations of their clients. Needless to say, the full address is also required, and such other particulars as will simplify the future working of the account.

The banker will also explain the usual requirements of his bank. On the assumption that it is a current account that is being opened, he will tactfully enquire whether it is desired to keep a large or small balance with the bank. If the average balance to be kept is fairly large, no charge for keeping the account will be made, and the banker may even allow a small rate of interest. If, however, a comparatively small balance is to be maintained, a trifling charge will be made; it is usually about 7s. 6d. per quarter, sometimes more, rarely less.

Some of the Overseas banks in London have a rule, more observed in the breach than in the observance, that the average monthly balance must be maintained at £50. Interest is, it goes without saying, always charged on overdrafts.

"Why should the banker make a charge?" it may be asked. One reason is that he is entitled to some recompense for all the trouble and expense involved in keeping the account; secondly, with current account money which he is always liable to be called upon to pay out on demand, the profit is small, since the banker has always to keep a certain amount of money in his coffers lying idle in readiness to meet the demands of his clients.

Current Account and Deposit Account

It is well at this stage to emphasize the difference between current account money and deposit money. Although both classes are bulked together in most bankers' balance sheets under the popular title of "Deposits," yet

in all banks there are really two sets of accounts. A current account, as its name implies, is one into which sums are paid in and from which sums are drawn out day by day by the bank's customers. It is the account on which cheques are drawn. Money on current account, being a debt, is just like any other debt, repayable on demand. Except in special cases (*i.e.* where customers keep a large daily balance) no interest is allowed on current account money.

In a much-quoted case—*Foley v. Hill*—the House of Lords laid down very definitely that the duty of a banker is to pay the money when drawn upon by cheque, or *when demanded*.

Deposit accounts, or, as bankers frequently term them, "Fixed Deposits," are more particularly utilized for saving, or for putting by money until it is needed, say to meet the demands of the income tax or super tax collectors. Deposit accounts bear interest at rates varying with the time for which the money is deposited. A seven-day deposit, for instance, will not earn much interest, but for one for 3, 6 or 12 months correspondingly higher rates will be paid by the banker, since he has a definite time within which he can use the money without being in danger of meeting a demand for payment.

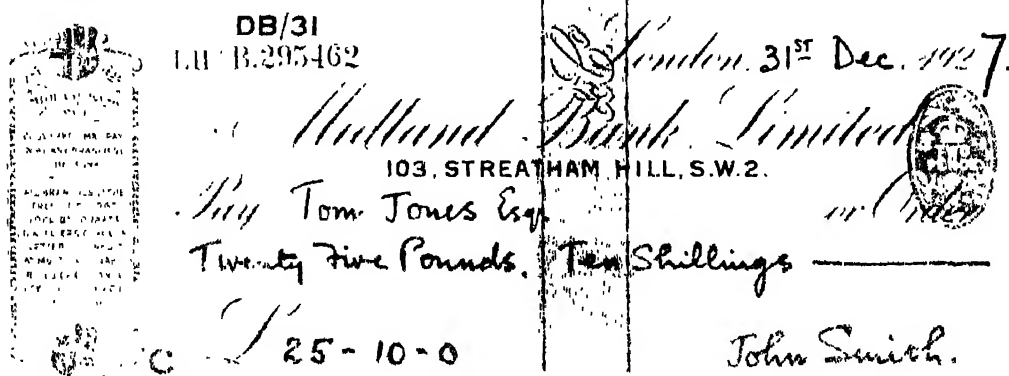
In these days of keen competition among the banks, depositors are often able to exact rates higher than those advertised. More especially is this the case with large and influential companies, who have substantial amounts on fixed deposit with the banks at special rates of interest. Deposits of this nature cannot, as a rule, be drawn upon by cheque, though it may be mentioned in passing that a banker is perfectly entitled to set off a debit balance in current account against a credit balance in deposit account; in other words he is legally entitled to combine the two accounts of his customer. There is

even here a certain advantage to the customer in keeping a current account and a deposit at the same branch of a bank.

If the current account be overdrawn, bankers do not return cheques, although no arrangement has been made to grant an overdraft; the credit in deposit account will be held as security until the current account is put in funds.

How to Draw a Cheque

It is curious how careless people are in making out cheques, so perhaps a few hints on the subject may not be out of place. A cheque is defined by the Bills of Exchange Act as a "Bill of Exchange drawn on a banker payable on demand." The cheque comes into existence by the banker's authority, it is drawn on the banker by the customer, and here is a specimen :



The reader will note that the cheque bears a twopenny stamp. This stamp is an impressed Inland Revenue one, and is on the cheques before they are handed out to the customer, whose account is charged with the cost of the stamps. The first point is the date; this must be filled in before a person who draws it parts with the cheque. The month should be written in letters, not in figures. The person drawing the cheque is called the "Drawer," and the one to whom he makes it payable is termed the "Payee"; the banker upon whom the cheque is drawn is termed the "Drawee."

In the specimen given, John Smith is the drawer and Tom Jones the payee. Care should be taken to write the name of the payee clearly and distinctly, and blank spaces should not be left; in drawing a cheque the customer should begin to

write, as near the left-hand margin as possible, the amount in words and figures. Care, too, should be paid to the spelling of the payee's name, as cheques are not paid by bankers unless the endorsements correspond in every respect with the name of the payee. For example, a cheque drawn payable to

Jones & Co. cannot be paid on the endorsement of Tom Jones & Co.

Brown & Co. cannot be paid on the endorsement of Brown Brothers.

T. Brown cannot be paid on the endorsement of T. Browne.

It is important, too, to see that the words in the body of the cheque and the figures correspond; the amount in words is held legally to be the sum payable, the figures in the bottom left-hand corner of the cheque are merely to facilitate reference. Attention to such details saves both the banker and the drawer from the

unpleasantness arising from cheques being returned unpaid with the answer "amounts differ," or "words and figures differ."

The specimen cheque, it will be observed, is "to order"; that being so, Tom Jones will have to endorse it before presenting the instrument for payment, and to do this he will write his name on the back.

In this connection there is an interesting point to note: a cheque constitutes payment unless dishonoured, but if the question arise as to whether a debt has been paid, the mere production of a cheque, drawn by the debtor in favour of the creditor and paid by the banker, is not evidence of payment. It is incumbent upon the debtor to show that the cheque has actually passed through the creditor's hands; therefore it is prudent to cause the payee to write his name across the cheque or to endorse it.

Banks, it should be noted, exercise infinite care to protect the credit of their customers when they unfortunately have to dishonour cheques. The instruments are returned marked "R/D" (Refer to drawer), this form being preferred to the more objectionable "N/S" (Not sufficient). In some cases, the bankers go still further and request the holder to present the cheque again, but in any case, once a cheque has been dishonoured by non-payment, for whatever cause, the holder is entitled to treat it as dishonoured and is not legally bound to present it again.

Bearer cheque books are also issued by banks, and when a cheque is made out, say, to "Tom Jones or Bearer," no endorsement is necessary. A bearer cheque may be converted into an "order" cheque simply by crossing out the words "to bearer," but if it is desired to turn an "order" cheque into one payable to bearer, the words "or Order" must be crossed out and the alteration initialled by the drawer.

Relation between Bank and Customer

Now we do not want to wander into the valley of the dry bones of law, but it is well that the reader should understand correctly the relation between himself and a banker. The relation between banker and customer is that of debtor and creditor. So long as the customer has money standing to his credit in the books of the bank, the bank is debtor and the client a creditor. But note this: the banker is in no sense a trustee of the moneys paid in by the customer. Directly the money passes into the control of the banker, it is his money.

So we get the curious legal dictum that actually a banker has no money in his hands belonging to the customer; consequently, if the customer pays money over the counter of a bank to the credit of his account which is not overdrawn, and the bank cashier has got his hand upon it, the person paying in the money cannot take it back, even if he suspect the solvency of the bank.

It is equally important to remember that the instant the cashier, when cashing a cheque, places money within the control of the person presenting the cheque, the bank cashier also cannot take back the money—there is actual delivery and possession. The customer should also bear in mind that if the funds in his account be low, and he should knowingly or unknowingly draw a cheque for a larger amount than the bank owes, the banker is not bound to honour it. For example, if the customer has £50 to his credit, and he draws a cheque for £60, the banker is quite within his rights in declining to pay the cheque, and he is not bound to offer to pay the sum actually at the credit of the drawer.

Of course, if an advance or an overdraft has been arranged, the banker is bound to honour cheques up to the amount of the agreed accommodation.

The banker, having undertaken a contractual obligation, has certain

duties to perform, apart from the relation of debtor and creditor, so there is a superadded obligation on the part of the banker to honour the customer's cheques if the account be in credit. A cheque drawn by a customer is in point of law a mandate to the banker to pay the amount named in the cheque. The customer is therefore a mandant—the person who commands—while the banker is a mandatory—the one who has to obey.

Forgery

Now so long as the banker pays the cheque honestly and fairly, he is entitled to debit the sum he pays to the account of the drawer, even though the signature of the payee or even that of an indorser be forged. But though the banker is protected against a forged indorsement, he receives no protection if the signature of the customer, that is the drawer of the cheque, be forged.

A banker is bound to know the signature of his customer, and, if he pays a cheque bearing the forged signature of his customer, he cannot charge the account of the customer with the amount. Further, if the cheque has been altered and made payable for a sum larger than that for which the customer made it out, the banker is precluded from debiting the account of his customer with the forged amount; he can only charge him with the sum for which the cheque was originally drawn.

Just as the banker has very definite duties to perform, so has the customer. He contracts reciprocally that in drawing his cheques he will draw them in such a form as will enable the banker to fulfil his obligation, and therefore in a form which is clear and free from ambiguity. To adopt the keen insight of Shakespeare :

“How oft the sight of means to do ill deeds
Makes ill deeds done !”

By which we mean that the customer must not do anything, so to speak, to invite crime. A recent case will illustrate this. Lord Finlay said :

“It is beyond dispute that the customer is bound to exercise reasonable care in drawing the cheque to prevent the banker being misled. If he draws the cheque in a manner which facilitates fraud, he is guilty of a breach of duty as between himself and the banker, and he will be responsible to the banker for any loss sustained by the banker as a natural and direct consequence of this breach of duty. It has been often said that no one is bound to anticipate the commission of a crime, and that to take advantage of blank spaces left in a cheque for the purpose of increasing the amount is forgery which the customer is not bound to guard against. I am unable to accept any such proposition without very great qualification. As the customer and the banker are under a contractual relation in this matter, it is obvious that, in drawing a cheque, the customer is bound to take usual and reasonable precautions to prevent forgery. . . . If the cheque is drawn in such a way as to facilitate or almost invite an increase in the amount by forgery if the cheque should get into the hands of a dishonest person, forgery is not a remote but a very natural consequence of negligence of this description.” (London Joint Stock Bank v. Macmillan and Arthur.)

We make no excuse for dwelling on these points—their importance warrants it, and we conclude with a further excerpt taken from the judgment by Lord Shaw in the same case :

“The case must be taken as the simplest one, namely, of a cheque duly signed, forwarded on behalf of the customer to the banker and honoured. There are in these circumstances reciprocal obligations. If the cheque does not contain on its face any reasonable occasion for suspicion as to the wording and figuring of its contents, the banker, under the contract of mandate which exists between him and his customer, is bound to pay. He dare not, without liability at law, fail in this obligation, and the consequences to both parties of the dishonour of a duly signed and *ex facie* valid cheque are serious and obvious. In the second place, if there be on the face of the cheque any reasonable ground for suspecting that it has been tampered with, then that, in the usual case, is met by the marking, ‘refer to drawer,’ and by a delay in payment until that reference clears

away the doubt. Always granted that the doubt was reasonable, the refusal to pay is warranted. These obligations on the banker do not, of course, exist until after the cheque has been presented.

"Upon the other part there are obligations upon the customer. In the first place, his cheque must be unambiguous and must be *ex facie* in such a condition as not to arouse any reasonable suspicion. But it follows from that that it is the duty of the customer, should his own business or other requirements prevent him from personally presenting it, to take care to frame and fill up his cheque in such a manner that when it passes out of his (the customer's) hands it will not be so left that, before presentation, alterations, interpolations, etc., can be readily made upon it without giving reasonable ground for suspicion to the banker that they did not form part of the original body of the cheque when signed. To neglect this duty of carefulness is a negligence cognizable by law. The consequences of such negligence fall alone upon the party guilty of it—namely, the customer."

Open and Crossed Cheques

So much for the relation between banker and customer. Let us now turn to another aspect of cheque drawing. Suppose John Smith, the drawer of a cheque, wishes to get money from his bank, he will usually pay a visit, armed with his cheque book, to the bank. There he will write out his cheque, and whether he has an "order" or a "bearer" cheque book, it will be sufficient if he writes after the word Pay—"Self," or "Cash," and then completes the cheque in the manner we have indicated. However, if he leaves in the word "order," the cashier may rightly insist on his endorsing the cheque. If his cheque is one to "bearer," there will be no need to endorse it. A cheque made out in this way is called an open one.

Cheque books, as will be observed, are issued with a counterfoil, and the methodical man of business will be careful to see that when making out the cheque he also fills in the counterfoil, as it is useful for reference.

Cheques not payable on demand should be crossed. To cross a cheque is

to draw across its face two parallel transverse lines. Where a cheque bears across its face an addition of (a) the words "and company" or any abbreviation thereof between two parallel transverse lines, either with or without the words "not negotiable"; or (b) two parallel transverse lines simply, either with or without the words "not negotiable"; that addition, states the Bills of Exchange Act, constitutes a crossing, and the cheque is crossed generally. Where a cheque bears across its face an addition of the name of a banker, either with or without the words "not negotiable," that addition constitutes a crossing, and the cheque is crossed specially to that banker. This is called special crossing, the other way is general crossing.

The custom of writing the name of a banker across the face of a cheque is said to have originated from the practice of the Clearing House, where the clerks of the different bankers who did business there were accustomed to write across the cheques the names of the accounts.

General Crossing

To return to the general crossing. It is customary to draw across the face of the cheque two transverse lines and between the lines to write the words "and Co."; when this is done, it operates as a notice to the banker upon whom the cheque is drawn that he may not pay it over the counter, but only pay it to another banker, who, by the way, is called the "collecting banker." The object of crossing a cheque is to ensure greater protection when sending cheques through the post; as the cheques are only paid through a collecting banker, it is much more difficult for the wrongful person to get the crossed cheque paid than it would be if the cheque were open. It adds still greater security if the drawer of the cheque adds to the crossing the words "Not negotiable,"

for, if it does happen to get into wrong hands afterwards, no one has a right to it except the true owner.

To illustrate the meaning of a "not negotiable" cheque. Suppose it goes astray and gets into the hands of a wrong-doer, I. Catchem, by name, and that worthy takes it to U. Cheatum, an obliging tradesman. The latter is persuaded to cash it. When the fraud is discovered, U. Cheatum will have to return the cheque to the true owner, or, if he has passed it through a bank and got cash for it, he will have to refund the amount.

A short description will make plain the effect of the crossings. First we have the general crossing. Either the drawer or the holder of a cheque may cross it generally. This, as we have seen, can be done in several ways; the crossing may simply consist of the words "and Company" or any abbreviation thereof between two parallel transverse lines, either with or without the words "not negotiable"; or either of the individuals mentioned may draw two parallel transverse lines across the cheque, with or without the words "not negotiable."

Special Crossing

Then we have the special crossing. Where a cheque bears across its face an addition of the name of a banker, either with or without the words "not negotiable," the cheque is said to be crossed specially and to the banker named in the crossing. A cheque may be crossed generally or specially by the drawer, and where a cheque is uncrossed, the holder may cross it generally or specially. Where a cheque is crossed generally or specially, the holder may add the words "not negotiable."

The point to note is that crossed cheques, unlike open cheques (those simply payable to bearer or order without the crossing), are payable only through a bank. That is to say,

if the reader receives a cheque crossed generally, he cannot present it to the bank upon which it is drawn and demand cash over the counter. He must pay it in to his own banker, who will pass it through the Bankers' Clearing House for presentment and payment, and when it is paid he will credit the customer's account with the proceeds.

A special crossing is put on a cheque when the drawer of a cheque knows, or is informed of, the name of the bank in which the person to whom he is sending the cheque has an account, and the effect of the crossing is that the cheque will only be paid to the banker whose name appears on the crossing when presented by him through the Clearing House in the ordinary way.

Some of the expressions on cheques such as "and Company," "& Co.," "a/c Payee" mystify the business man. They are easily explained. The words "and Company" or "& Co." have no particular legal meaning: they are merely a relic of the old coaching days when mails were frequently robbed. As a rough sort of protection drawers of cheques wrote the words across their cheques as part of the name of the bankers, through whom they were to be paid, the idea being that the payee should fill in the full title of the bank when he received the cheque. It was a doubtful protection at best.

The words "a/c Payee" have no legal sanction under the Bills of Exchange Act. They are a mere direction to the receiving banker, and, according to Justice Byles ("On Bills"), though the word "payee" means the person designated in the cheque as payee and not the owner of the cheque at the time when it is presented, the words "account payee" are not sufficient, in the case of a cheque drawn to order or bearer, to make it non-transferable within the meaning of the code. At the same time they operate as a caution to the

collecting banker who should there-upon make enquiries. Disregard by him, in the absence of explanation, amounts to negligence on his part. As regards uncrossed cheques presented over the counter for payment bearing such words, the paying banker would be within his rights in declining to pay on the ground that the form of the cheque was irregular.

Endorsing

We have spoken of endorsing a cheque. Concerning endorsements enough has been written to fill, not one book, but many books. But it is unnecessary to worry the business man with a lengthy statement. Shorn of all the legal and banking jargon which surrounds endorsing, all it is may be contained in the sentence—"A payee of a cheque endorses it when he writes his name on the back." If a word of advice may be added it is: be careful that your endorsement is exactly the same as the description written on the face of the cheque, so if the instrument is payable to P. Brown, do not complicate matters by writing "P. Browne."

In practice it is surprising to find how numerous are the incorrect endorsements with which one meets. For all practical purposes we may confine our remarks to three kinds of endorsements—they are, blank, special and restrictive endorsements.

A blank endorsement is merely the writing by the payee of his name on the back of the cheque. The effect is to make the cheque payable "to bearer," and it may pass through several hands without further endorsement. The person eventually presenting it for payment is not bound to endorse it. He may do so if he likes and will probably not demur if the banker asks him to write his name on the back, but the point is that a banker cannot compel him to endorse the cheque as a condition precedent to payment.

Special Endorsements

A special endorsement is one that specifies the person to whom or to whose order the cheque is made payable. Thus, a cheque payable to Tom Jones may be endorsed by that gentleman "Pay Peter White—Tom Jones." Until Peter White in turn adds his endorsement no one else could cash the cheque honestly. Of course, if Tom Jones had endorsed the cheque in blank by simply signing his name on the back and had then passed over the cheque to Peter White, the latter could have added the words "Pay Peter White" above Tom Jones' endorsement.

Again, suppose he wished to hand over the cheque to Harry Brown, instead of writing above Tom Jones' endorsement the words "Pay Peter White," he could add the words "Pay Harry Brown" and then hand over the cheque to Brown, and it would be perfectly in order, since Harry Brown could present the cheque and by endorsing his name on it payment would be made.

Restrictive Endorsements

A restrictive endorsement, is, as its name implies, one that prohibits the further negotiation of the cheque, or which expresses that it is merely an authority to deal with the cheque as directed.

Examples of restrictive endorsements are: "Pay Tom Jones only," or "Pay to the credit of Tom Jones at the Midland Bank." Such endorsements give the endorsee the right to receive payment of the cheque, but give him no power to transfer his rights as endorsee.

Generally speaking, endorsements must follow the spelling of the name on the face of the cheque, even where wrongly spelt, but the payee or endorsee may, if he so desire, add his correct signature underneath. Care is necessary in the case of endorsements for limited companies. Certain officials of the company usually have

power to endorse and they cannot delegate this authority. A cheque made payable to Jones & Co., Ltd., may be endorsed

"Per pro Jones & Co., Ltd., John Smith, Secretary," or "For Jones & Co., Ltd., John Smith, Secretary."

Special Signatures and Endorsements

The rules for the signature and endorsement of cheques should be clear and unequivocal, but we fear that in practice they are greatly misunderstood. Further reference to a few important points may, therefore, not be out of place.

Three cases we have in mind are cheques on joint accounts, accounts of partners, and those of limited liability companies. To take the last case first. The power to sign and endorse cheques of limited liability companies is usually granted only to some high official of the company. The form of authority is supplied to the bank when the account is first opened, and usually takes the shape of a special minute passed at a meeting of directors and signed by them. Cheques henceforth will be accepted only when properly completed in accordance with the authority so given. The signature sometimes takes one form, sometimes another, but it will be definitely laid down in the instruction to the bank. Some companies adopt the form—

*For the Rand Cement Company,
Limited,*

Peter Money }
Isaac Wise } DIRECTORS.

Others—

*For and on behalf of Jones & Company,
Limited,*

John Smith,
SECRETARY.

Some bankers hold that the following method of signing is preferable—

"Per pro Jones & Company, Limited,
Cyril Bond,
MANAGER.

But, in any case, the capacity in which an official acts must be stated; if it be the manager who signs, he should state manager after his signature. If a director, or two directors, that designation should be given on the cheque. An agent is not empowered to delegate his authority to sign, so if it is found necessary for any other person in the employ of the Company to sign, proper authority must be given and communicated to the Bank by the Company.

A less desirable form of signature adopted by some Limited Companies is "The Blanktown Company, Limited." This form is accepted by bankers, provided the cheque is so signed by a person duly authorised for the purpose.

Endorsements on behalf of Firms

We have referred in the course of this article to the endorsements on cheques payable to Limited Companies; we may add, that power to endorse should also be given to a high official, and that fact properly conveyed by the directors to the bank.

In accounts of partners and joint persons, all may be authorised to sign and endorse cheques, or only one of the partners or joint persons may be given the authority. The banker in such case will act only on the authority given when the account is opened. All the partners and parties to a joint account are required to be parties to any authority given to the banker stating whose signature is to be accepted on behalf of the firm or account of joint persons, whether in the signing or endorsing of cheques.

It should be noted, however, that a partner in a trading firm has an implied power to draw and endorse cheques and so to bind his co-partners. For instance, if an account be opened in the names of, say, Samuel and John Jones, either partner to sign, "Samuel and John Jones," a banker would be

justified in accepting and paying a cheque signed

“ Pro Samuel and John Jones,
Samuel Jones ”

provided he was satisfied that the signature is that of Samuel Jones, the partner.

As regards endorsements, these of course must follow the form given on the face of the cheques: thus, a cheque written “ pay Brown & Co. or order,” is correctly endorsed “ Brown & Co.,” even if the firm be John Brown & Co. Further, if a cheque is made out to Johnson and Smith, it may be endorsed “ Johnson and Smith,” or may bear the endorsement in the handwriting of each partner, say, John Johnson, Harry Smith.

In the case of cheques made payable to joint persons, both of course must endorse them, unless one person has the authority to sign for the other, though the banker has to be satisfied on that point.

Executors and Trustees

The signatures and endorsements of executors and trustees are a frequent source of trouble to bankers, but the procedure is simple if only such persons would exercise reasonable care. In opening such accounts the banker necessarily requires documentary evidence of the powers of all these people to sign and/or endorse cheques, such as probate of the will, letters of administration, trust deed, etc. When any such account is opened, bankers require exact instructions in writing as to who is to operate on the account, and the powers of each and all in regard to it. If one executor is given power to sign and endorse, well and good, the banker will act on the authority so given. If two or more are to sign, or one be empowered to act on behalf of the others, the banker will insist that the instructions are followed.

Similar principles apply in regard to trust accounts. But there is this point to notice, in the absence of instructions to the contrary, one executor can sign or endorse a cheque; in the case of trustees, all are required to sign. For example, a cheque made payable to the trustees of the late Tom Brown is incorrectly endorsed “ For self and co-trustees of the late Tom Brown, John Jones.” The correct endorsement is

John Jones } Trustees of the
Peter Simple } late Tom Brown.

The business of trustees and executors, however, requires special treatment, and for full and definite information on it the reader is referred to our chapter on the subject.

We need hardly say that, in all the cases to which we have referred, specimen signatures of the parties empowered to sign and endorse cheques and similar instruments are required by the banker as a condition precedent to operating on the account.

Much that has been said about cheques equally applies to Bills of Exchange; this subject has been dealt with in a separate chapter, to which the reader may refer.

Loans and Advances

There remains to be discussed the subject of loans and advances, not the least of the services rendered by a banker to his clients.

Broadly speaking, there are four kinds of loans or advances in banking—at least so far as the business man is concerned; overdrafts in current account, demand loans, time loans and call loans. Some people require one kind of accommodation, some another.

In this business of loans and advances the relation between banker and customer is rather different; the banker is not a borrower, he is a lender. As we have seen most current account money is payable on demand or at very short notice; the

banker has therefore so to arrange his loan accommodation that the money does not form too long a lock-up. In other words, he has to be sure that he has sufficient floating funds always available to meet ordinary demands for cashing cheques, etc.

The banker does not undertake to supply fixed capital, what he tries to do is to meet all genuine demands for circulating capital. But even in supplying circulating capital, he has to be careful that his loans and advances do not clash with his demand liabilities. Current account money and other deposits are temporary loans to the banker, and in the same way he has to arrange that his loans to the public are of a temporary nature, the repayments falling due at or near the periods in which he is likely to need funds to meet customers' drawings.

Overdrafts

An overdraft is a temporary loan to a customer who has a current account, generally against security of a readily negotiable nature. The banker agrees to allow the client to overdraw up to a certain limit for a certain length of time. Cheques should not be drawn for an amount in excess of the agreed limit. The main advantage of an overdraft is that the borrower pays interest only on the actual amount he draws. Interest is usually at 1% per annum over Bank Rate, and the first cheque drawn will mean that interest is payable on the amount drawn for the whole period of the loan; the next cheque drawn, assuming it is drawn at a later date, will carry less interest, and so on in proportion to the drawings.

Demand Loans

Closely akin to overdrafts are demand loans. These, as their name implies, are repayable on demand. In quoting a rate of interest to be charged on these loans regard is had to the class of security offered, and probable period for which the loan is required,

though here again it is usually 1% over Bank Rate with a minimum of 5% per annum. Demand loans are made against all classes of security, produce, goods, stocks and shares, and against personal guarantees of third parties. Even though the loan is repayable on demand, it is the practice of bankers not to call for repayment without due notice, and often these loans, if the business is conducted satisfactorily, are allowed to run on for comparatively long periods.

Most bankers, however, require an undertaking that repayments shall be made at stated intervals, in other words, the loans are understood to be for temporary purposes only. A glance at any banker's balance sheet will show that bankers keep their demand loans within well-restricted limits.

Time Loans

Then we have loans of a longer duration—time loans. These run for a given period, within which time they must be repaid. With both demand and time loans, the sum to be lent is credited to the customer's account forthwith, and he has to pay interest on the whole amount of the loan, whether it be paid by instalments, or in one sum.

This form of accommodation is therefore more expensive than overdrafts. Time loans bulk largely in bankers' loans, and they are generally regarded as a profitable outlet for the employment of surplus funds. Security is of all kinds. It is very closely scrutinized by bankers, and is watched carefully; if any noticeable depreciation occurs, the client is called upon to augment the security.

Call Loans

Call loans come in a category by themselves. They do not greatly concern the ordinary man of business, they are more properly restricted to advances to bill brokers, stock brokers, money brokers and other denizens of

the London Money Market. The rate of interest varies from day to day in accordance with the supply of floating money on the market. If funds on the market are plentiful, the rate of interest falls to a very low level; if money is scarce the rate will be correspondingly high.

Loans of this class are made only against readily realisable security, such as Treasury Bills, and other similar bearer securities, or against first-class acceptances of London banks. The borrower is entitled to repay his loan on any day, and the bank, similarly, can call in the loan whenever it likes. Hence the title, "day to day money."

Loans on goods and other produce, perhaps, call for special mention. The banker generally regards these as of a very temporary nature, and is apt to look upon the security as rather a hazardous form of cover, that is why the rate of interest is comparatively high, and the margin called for very ample. A margin of 20% or more is often required.

In all cases special arrangements have to be made with the banker; the golden rule for the business man is to see that such loans are paid off promptly, and the more he shows that he is prompt in repayments, the greater will be the confidence of the banker in him, and the lower will be the rate of interest exacted for accommodation.

Competition among the banks in normal times is keen. Large, well-secured loans form a profitable outlet for surplus funds; most large borrowers know this, and in consequence the best terms are a matter of bargaining.

The security for loans and advances is, necessarily, of importance to the banker. He has to see that he is amply covered, and that the security is liquid, *i.e.* capable of being turned into cash quickly, if required. On real property, the tendency is to insist on ample margin, and an inde-

pendent valuation is required. Title deeds, etc., are verified by the bank's legal advisers, whether the security comprise a legal mortgage, simple deposit of deeds, with or without a memorandum of deposit. For advances on goods and produce, documents of title are required, and the security generally has to be under the control of the bank. An ample margin is always insisted upon by the banker.

The services banks render to exporters and importers are referred to in a chapter dealing with the Export Trade.

The Pass-book

The pass-book we have purposely left until last, with a view to letting the customer appreciate the items that may appear to his debit and credit.

The pass-book is simply a copy of the customer's account in a special book supplied to him by the bank. The business man should remember that it really contains copies of the entries recorded in his account in the books of the bank.

In no circumstances should the customer himself make entries in his pass-book. The pass-book should be regularly handed into the bank to be made up; only by adopting this practice can a man keep a regular check upon his account.

The general form of pass-book now issued by London banks is headed—"Dr. The A.B. Bank in Account with Tom Jones," thus emphasizing the debtor and creditor relation of the parties. The reader will appreciate that, following the heading, all amounts paid in by him will be entered on the left-hand or debtor side of the account, and all amounts paid out will be found on the right-hand or creditor side of the account.

Once the pass-book is written up by the bank, the entries are taken as *prima facie* evidence against the bank, and the amount shown in it standing

to the customer's credit is that upon which the customer is entitled to rely. However, although in ninety-nine cases out of a hundred entries in a pass-book are regarded in law as *prima facie* evidence against the banker, they are not conclusive evidence. A banker may be able to prove that certain entries were made in error, or in mistake of fact. Further, if it can be proved beyond all doubt that the customer has himself been guilty of negligence or fraud, the law will not enable him to take advantage of the banker's mistake: still the burden of proof is on the banker.

Other Services

The services rendered by bankers to their clients are so multitudinous that it is hardly possible to refer to them all in an article of this kind, but a brief summary of the principal features may be of interest.

Take investments, for instance. It is not wise for a person who has no knowledge of either stock exchange procedure or of the stock brokers who carry out the transactions to attempt to deal direct. Much better leave it to the banker, who is well-equipped for the business, deals only with reputable brokers, and will efficiently safeguard the interests of his client. All banks now have properly constituted departments for dealing in stocks and shares, home and foreign, of all descriptions. We need say no more here about the investment of savings, for all information on the subject the reader is referred to our chapter on the routine of buying and selling of stock exchange securities.

Then, we have the collection of coupons on bearer stocks, and the like, and the collection of dividend and interest warrants, all of which is attended to by the banker free of charge to the customer. Banks also undertake the safe custody of securities and other valuables, and so save their clients safe deposit charges, or

the expense of purchasing a safe. Most banks grant this service without payment, but even so they have certain responsibilities to their customers.

In cases where the service is undertaken gratuitously, the general view is that the banker is theoretically only liable for gross negligence, concerning which, the eminent banking counsel, Sir John Paget, says: "gross negligence is a misnomer, for the duty to which the banker is bound and for breach of which he may be liable, indicates a higher degree of care than is correlative with the common acceptance of gross negligence. The banker is bound, as a gratuitous bailee, to take the same degree of care of the goods as a reasonably prudent man, with the same facilities at his disposal, would take care of goods of his own of the same description."

Again, a banker is the medium for making periodical payments for his clients, such as club subscriptions, life assurance premiums, remittances, and the like. He will also undertake the payments to other banks for the credit of directors, managers or other employees of persons and firms, even, sometimes to the extent of paying wages of employees. We have heard, for instance, of a great bank undertaking the encashment of wage cheques for a large tramway company. The extent of his responsibility in such cases seems to depend upon whether he is paid or receives a reward for his services, and, generally speaking, in cases of dispute, the burden of proof is on the client.

If a client desires to undertake a journey for pleasure or otherwise, it is the banker who is called upon to assist him by issuing a letter of credit or circular notes, which enable the traveller to obtain money in every foreign city, or even on a steamship. Further, it is the banker who will facilitate remittances of money to any part of the world. Again, if the customer wishes to send the remittance

under his own cover, especially in those cases where cheques are not usually desirable or convenient, it is the banker who will issue a demand draft, which enables the beneficiary to receive payment on demand at any place in which the banker has a correspondent.

The banker's services do not end here. He will undertake all the divers duties of a trustee or executor, and the probability is that the public are better served than where such duties are left to private persons. The rights and duties of executors and trustees form the subject of a separate chapter, so we need not ponder over the question of procedure.

The banker is a cosmopolitan sort of chap—if the customer be a merchant or trader and has to collect payment for his goods from the other side of the world, he will find the banker ready to assist him. Moreover, in this connection the banker very efficiently safeguards his customer's interests. Should the client require immediate cash, the banker again will act as a discounteer, and be prepared to buy bills, less an agreed rate of discount. The *modus operandi* of bill discounting and the like receive detailed treatment elsewhere, and, as it is an important part of a bank's business, the reader should study carefully the special chapter on the subject.

Reference has been made to the remitting of money—a very useful function performed by present-day bankers. So great are the ramifications of the banks, that one may pay money into a country or foreign branch of a bank and have it quickly transferred to the centre in which he keeps his main account.

Bankers are also experts in income tax and super tax procedure, and for a reasonable fee will attend to the vexatious demands of the inland revenue. The above are some of the main services a bank renders to its customers.

The London Bankers' Clearing House

Finally, as a fitting conclusion to this chapter, we may refer to the Bankers' Clearing House, not the least important of the many parts of the machinery of the London Money Market. Few people realise the size and magnitude of the operations conducted in the somewhat obscure and dingy building, called the "Clearing House," in Post Office Court, Lombard Street. The Clearing House originated in 1773, and was the outcome of the somewhat clandestine meetings of London bank clerks, who sorted out their banks' cheques in the congenial atmosphere of a coffee house near Lombard Street. From so small a beginning has arisen the Bankers' Clearing House of to-day.

It exists primarily to simplify and facilitate the daily exchange of notes, cheques, bills of exchange, coupons, and other such items passing between collecting banker and paying banker. Payments due to and from one bank to another are made by means of a set-off. This off-setting of the claims of banks, one against the other, is really the central function of all such clearing houses, no matter where they exist.

With the effluxion of time, and the evolution of money, various other important functions have been added, until, at the present time, the London Bankers' Clearing House system is something more than a common receptacle in which items are balanced against each other. The Clearing House, in fact, is no mere collecting machine; it is a vast, co-operative association of banks working together for the common good of its members and for the country at large.

The London Clearing

The London Clearing is divided into three parts—in order of importance, the Town Clearing, the Metropolitan Clearing and the Country Clearing. The Town Clearing deals with the clearing (*i.e.* collection and payment)

of cheques, bills of exchange, notes, etc. in the City of London proper. The Metropolitan Clearing is of comparatively recent origin; it was instituted in 1907 for the purpose of facilitating the clearing of cheques, bills of exchange and other bank items drawn and payable at the various branches of banks outside the City, but within a certain radius of Lombard Street.

The Country Clearing was established in 1858, and is restricted to the clearing of country cheques and demand bills. Other bills of exchange are not passed through the country clearing, but are collected by the banks in the usual way, and customers' accounts are not credited with the proceeds until the money is actually received by the collecting bank.

Figures of the Clearing House

The sums that pass through the Bankers' Clearing House are of very large dimensions. During 1926, for example, the amount that passed through the Town Clearing was £35,346,429,000, through the Metropolitan Clearing, £1,660,757,000, and through the Country Clearing, £2,817,868,000, giving a grand total of £39,825,054,000. These figures show a slight decrease compared with 1925, due mainly if not wholly to the stoppage of the coal mines. The

week recording the largest total was that ending January 6th. The amount of clearings during that week was £968,775,000, which was a record. The highest weekly total wholly in 1926 was for the week ending October 6th, viz., £907,854,000 and the lowest that for the week ending September 29th with £619,396,000. The highest daily total was for December 31st, £251,721,000. A daily turnover of £200,000,000 was reached on six occasions, against ten in 1925 and seven in 1924.

The number of bank offices utilising the services of the Clearing House has grown to over 8,900, and banking facilities have been extended, not only in the towns, but also to many villages by means of branches and agencies of the banks. In the last Report of the Bankers' Clearing House, it is shown that in the year 1905 the number of banks whose cheques were cleared, or were subsequently cleared through the Metropolitan Clearing (established 1907), was 94, and the number of offices, 5,290, so that while the number of banks has, during the last 20 years declined by 78%, the number of banking offices affording banking facilities has increased by 68%. Who shall say that the efficient working of the British banking system has not increased correspondingly?





L. Dixon Scott

THE HEART OF THE CITY OF LONDON.
Royal Exchange in centre, with Bank of England on left.



Keystone View Co

LONDON'S FINANCIAL CENTRE.
Thromorton Street. On the right is the Stock Exchange

CHAPTER VI

THE MONEY MARKET

BY

H. S. OAKLEY

What the Money Market is—The "Price" of Money—Operations in the Money Market—Banks, Discount Houses and Bill Brokers—The Money Broker—Accepting and Issuing Houses—The Bank Rate—The Weekly Bank Return.

To the average reader of the daily newspaper the Money Article is, for the most part, meaningless; its jargon conveys nothing to him; its technicalities are as forbidding as those of a scientific treatise.

With a little elementary knowledge, the general reader should find no difficulty in reading the article, and if he invests money from time to time, he may well read it with profit to himself. There are a few technical terms which he must first understand if he is to follow the seemingly abstruse allusions which the writer of the money article reels off in his daily summary of doings in the City. It should be remembered that, just as a writer on scientific matters must be precise in his language, so must the financial writer; technical language and phraseology are for that reason unavoidable if the writer is to be brief and at the same time accurate.

The writers of the money articles in our daily papers, in describing what goes on in the Stock Exchange and the various movements that affect prices, usually deal with several things in consecutive order: (1) The Money Market; (2) British and Colonial Government Securities; (3) Railway Stocks; (4) Colonial and Foreign Government Securities; (5) Mining Shares, and (6) Miscellaneous Industrial Shares.

We shall deal here with the Money Market, the first of these subjects only, reserving the others for explanation separately.

What the Money Market Is

There is no Money Market in the ordinary sense of the word market. No separate building is set aside for dealing in money, like the Stock Exchange, for example, where securities are bought and sold, or the Corn Exchange, or the Wool Exchange, where the actual commodities are dealt in. While money itself is an exchangeable commodity it is not bought and sold, for that would mean exchanging money for money.

What, then, does the City Correspondent in the money article of our morning paper mean when he writes about the "price" of money? He is talking about the *borrowing and lending* of money, and the price he refers to is the sum one agrees to pay for the loan, or temporary use of money.

The Money Market, therefore, is no particular place or building; yet it is a very real thing, and plays a vastly important part in the financial machinery of the City of London. The Money Market simply denotes, in general, the conditions and relations that exist between business houses .

and financial houses, Banks, Bill Brokers and Discount Houses in dealing with each other in credit transactions. Before the World War bill brokers and foreign bankers met twice a week at the Royal Exchange to buy and sell bills, but these meetings are no longer held.

In the Money Market they deal in money and negotiable securities, as in the Covent Garden Market they deal in apples; supply and demand are the dominant influences; if the demand is big, the rates are high; if the supply is greater than the demand, the rates are low. Influences of a temporary kind also affect the condition of the Money Market; the Government may require a great deal of money to pay interest on its loans, so also railway companies and other big institutions; in time these sums filter back and the normal condition is restored.

The commodity dealt in on the money market is "short credit," an elusive thing in the myriad transactions that go to make up modern business. Through the medium of the Money Market then, capital may be transferred to where it is wanted, on payment of such interest as is demanded for a short temporary loan of it.

When the writer of the City article happens to say that money is "cheap" he means that there is more money available for loans than is normal; on the other hand, if he remarks that money is "dear," or that the money market is "tight," he implies that there is more difficulty in obtaining accommodation.

What it comes down to, then, is this: In the Money Market—any financial institution or house where you can borrow money in the City—you get money advanced to you in exchange for your promise to repay it on a given future day. Your promise, of course, must have some substantial guarantee behind it; either your own personal credit or some negotiable security. Your

immediate needs will be met on the strength of other moneys falling due to you. But you must pay the price for this accommodation.

The banks and financial houses earn their income from lending money; if they should have more available money than they can well use on a particular day, it is obvious that they will be ready to advance money at lower rates of interest than they would otherwise do, just for the same reason that a merchant may take a less price than usual for his goods rather than not be able to sell them at all.

The "Price" of Money

That is the point briefly, but, as we shall see later, other factors come into play. The "price" of money, therefore, is what you have to pay for a short loan to a bank, a bill broker or a discount house whose business is to lend money. The difference between the amount the lender pays down and the amount the borrower has to repay is represented by the discount rate, in other words described as the price of money.

This discount rate will be at so much "per cent." In practice if the bill on which you are raising money is for £1,000 and the lender's terms are $3\frac{1}{2}$ per cent. and the period is six months, the amount you will receive is £982 10s., but at the end of six months you must repay £1,000. The loans are usually for a less period than six months.

Other factors, as we have said, may make the transaction more complicated. This arises where the question of "exchange" comes into play, which it does when you wish to remit money to some other country to be payable to some person on a certain future date. Within the confines of Great Britain it is a simple matter to transmit money from one town to another. You may, for instance, buy at the nearest Post Office a money order which you can send to the person to whom you owe the money. He can take it to a Post Office in the town

where he resides and get it exchanged for cash. That is an example of a simple exchange transaction; an inland bill of exchange transaction is also a simple matter in itself; it is a written promise to pay to another person, on a certain date, a given sum of money.

But if, for instance, the money has to be sent to Shanghai, or to New York, the thing is not so simple, and there are various ways of doing it. International exchange and the methods of financing foreign trade through the medium of bankers, bill brokers and discount houses are explained in another chapter; the elements of time, exchange fluctuations, depreciated currencies, and other things complicate matters. The business of buying and selling foreign bills of exchange, as we shall see, is one of the most important in the City of London.

II

The Centre of the World's Money Market

Before the War, London was the Money or Credit Market of the world. Whoever wanted credit, no matter where they came from and no matter what the business involved, could invariably get it if their standing was good and they were prepared to pay the price. The War, of course, necessitated a temporary cessation of this extremely lucrative business. During the War and in the earlier post-war years, New York to some extent took the place of London as the world's financier. Some authorities indeed appeared to be under the impression that London's supremacy in this direction was completely shattered, never to be restored. New York, they believed, was to be the financial centre of the future.

They were wrong. The bill on London, never quite out of favour even during the War, is regaining its place. The pre-war position has been restored, so far as restoration under the pre-

vailing conditions is possible, and London is once again in full control of the "short credit" business of the world. Some idea of the manifold reasons for this may be obtained from the following statement made by Mr. Otto Kahn, an American banker with a world-wide reputation.

"The often-heard talk of our displacing England as a world's financial centre is idle. The traditional position of England is the result of geographical, economic and psychological factors, of racial qualities, and the experience and practice of centuries. It is impossible to fulfil the functions of a great financial world-centre without having a broad market of genuine receptivity for many kinds of foreign investments. We in America have no such demand as yet. Another requisite for a great financial world centre is a healthy, active and regular discount market, which thus far we have not developed to the necessary degree."

The fact is that London has for many decades made an intensive study of the world's borrowers, their business, their needs and their limitations. The knowledge and experience gained in Lombard Street and its environs are not accumulated in a day or a year. It was chiefly the lack of that knowledge and experience that made it impossible for New York financial houses and bankers to take full advantage of the opportunities the War presented to them. World trade, both national and international, is made up of innumerable transactions. Each purchase or sale is a unit in itself, begun and completed within a very short period. Were there no bankers, bill brokers, or bill discounters the financing of these vast, complicated and world-wide transactions would be a very cumbrous business indeed, almost akin to the barter methods of the earliest traders.

It is in this connection that the London Money Market has established its usefulness. Its function

has been to create a specialised machinery, whereby the manufacturer in Bradford can supply and obtain payment for goods sent to almost any part of the world with the minimum of delay, cost and inconvenience, or the merchant in London can purchase and obtain goods or produce from almost any part of the world with similar facilities.

Not only, indeed, has this usefulness been demonstrated in connection with trade between this country and the outside world; the bill on London is a favourite form of payment for transactions between, say, Argentina and China, or India and Hungary. It is obvious that in order to fulfil their mission the members of the London Money Market must have large funds at their disposal. Their business is not investment. The money or credit at their disposal is not locked up in any permanent form. It is intensely "liquid" in form, ever running out and being replenished, practically this is done from day to day.

III

Financial Operations

Let us see then how this Market, without a home and yet exercising so potent an influence in the world's trading transactions, is operated. It is composed of lenders, borrowers and intermediaries. At different times the individuals composing the Market act in different capacities, the lender to-day may be the borrower to-morrow. The composition set out above is rather a definition of operations than a separation of component parts.

The centre of the Market is the Bank of England—the Bankers' Bank. It is the final resort of operation in the Money Market, never approached till all other sources of credit have been exhausted. The most important of these other sources of credit is the joint stock and private banks,

although the latter, owing to their steadily decreasing number, are of comparatively small importance. If a study be made of the balance sheets of the "Big Five," as the leading joint stock banks have come to be known, it will be seen that they have substantial sums included in their assets under the heading of "money at call and short notice." At the date of writing the average weekly amount included under this heading was £124,763,000. Add to this the funds lent to the market by issuing houses, foreign banks, other banks and large companies in whose coffers large sums have accumulated for specific use in the future, and the very substantial nature of the credit at the disposal of the Money Market will be realised.

In short, it may be said that any institution having at its disposal funds or credit for which it desires to find a temporary use in order that it may earn its keep, can find exactly the business it desires in the Money Market.

The most active section of the Money Market is that composed of the bill brokers and discount houses. As we have already pointed out they often unite in themselves the three operations for which the Money Market stands. (1) They are borrowers from the joint stock and other banks, from other sources where funds are available, and, when necessity compels, from the Bank of England. (2) When they discount bills for banks and commercial houses, they are lenders. (3) Their principal business, however, is in acting as intermediaries between business houses, both British and Foreign, who have bills to discount, and the joint stock banks.

It may be asked, Why should there be an intermediary? Why should not the banks lend direct to the borrowers? The answer is to be found in that specialisation to which we have already referred, which gives

the London bill broker so strong a position in world financing.

Banks, of course, specialise up to a point. Their statistical and information departments are elaborate organisations. Their range of operations, however, is a very wide one, and they cannot hope to have the knowledge, and it might almost be said the "instinct," which is possessed by the bill brokers or discount houses who have made a special study of this single side of financial life. Over long periods information has been obtained, connections and correspondents have been brought into being, all of which represent the last word in the organisation of information regarding the "standing" of commercial houses the world over.

The banks therefore are well content to leave this business in the hands of those who are expert at it. There are, indeed, substantial advantages in this arrangement from the point of view of the banks. They get large parcels of bills, and are saved the trouble and expense of dealing with the individual borrowers. They can select the particular bills that suit their convenience. And above all they have behind every bill they take the broker's guarantee that in any case of a bill being dishonoured the broker will meet the liability without question. This general guarantee, by the way, is the usual substitute for the bill broker's endorsement on the bill itself.

IV

How Business is Transacted

Now let us consider for a moment how the business of the Money Market is actually transacted. Every morning representatives of the principal bill brokers may be seen in the waiting rooms of the "Big Five." The city manager has made a careful study of his Finance Book. It has told him what money is likely to be received, what liabilities have to be met. Some

of the figures provided for him are certainties, some are probabilities, while some are only possibilities. It is his duty to bring them into relation with each other, and to estimate, as closely as he can, the position of the bank at the close of the day.

Two main factors influence him. One is the necessity of keeping the amount of money at the credit of his own bank at the Bank of England steady. The other is to see that every penny of surplus available shall be earning something. Having made his estimates and come to a definite conclusion as to how the position will be at the close of the day, the manager is ready to see the representatives of the bill brokers. If he sees himself with a lendable surplus he is prepared to make loans and will arrange with each client the amount, period and rate of interest. If on the other hand his calculations show that his bank is likely to be "short," the conference with each broker will be concerned with the amount the bank will require each broker to repay, a little later in the day, of the loans already outstanding.

Buyer and Seller

These brief daily conferences in the bank parlours are in fact the Money Market. The commodity dealt in is short credit. The bank manager is the seller and his endeavour is to obtain the highest rate of interest possible. The bill broker is the buyer and his endeavour is centred on paying the lowest rate of interest possible. The actual rate charged will depend, as in the price of every other commodity, on demand and supply. If the bank managers have large surpluses, and the bill brokers are not too eager for accommodation, the rate will be low, or, as the newspapers say, "money is easy." If, on the other hand, the banks are "calling in" and bill brokers find their requirements unsatisfied the rate will be higher and "money is tight."

Two kinds of security are usually given by the bill brokers for the accommodation they receive, bills of exchange and "floaters." Bills, of course, are the commodity in which the brokers themselves deal. They represent promises to pay by members of the trading community and it is the business of the bill broker to see that the bills he takes into his portfolio are good for the money they represent at maturity. In other words, it is his business, as already pointed out, to know all that can be known about the standing of those whose names appear on the bills. When he hands these bills to the banks as security for loans they have behind them the broker's guarantee as well as that of the signatories.

The nature and uses of bills of exchange have been fully explained in another chapter. The other securities known as "Floaters" are gilt-edged Stock Exchange securities, such as War Loan, Exchequer Bonds, Treasury Bonds. It has been estimated that the proportion of bills of exchange deposited with the banks, as security for the "short credit" extended to the Money Market, is about 90 per cent., the remaining 10 per cent. being made up of "floaters."

Bank Loans

The loans made by the bankers to the Money Market may be divided into four classes. The first class is "fixtures." These are funds lent for about a week. In the case of the large banks the period is seldom for more than ten days. Some other institutions, especially the foreign banks, will sometimes lend to the market for longer periods. A large proportion of the loans made to the Money Market is in the form of "fixtures." A study of the daily money report in the newspapers will show that the rate of interest for "fixtures" is generally a little less than the rate of discount at which Treasury Bills are allotted, thus en-

abling brokers, where they find it desirable, to take up and hold Treasury Bills at a profit.

The second form is in "day to day loans." These, while often really permanent in character, are liable to be "called in" from day to day. If repayment is not demanded before noon each day they are at the disposal of the broker for another day. It is not an uncommon thing for these "day to day" loans to be allowed to run on, when "fixtures" are called in. The rate of interest charged on them is a little less than that on "fixtures," owing to the liability of a sudden call for repayment. The rate often varies considerably, however, with the fluctuations in the surpluses for lending available at the banks. If the banks are "short" the rate will rise.

"Over-night loans" are the third form of lending. These comprise credit which the bill broker knows is really "short." They are generally raised for the purpose of accommodating clients who bring in bills for discount late in the day. The broker, anxious not to refuse business offered to him, seeks hurriedly among the banks, or other institutions, for one which has a temporary surplus left over. He borrows what he wants for the night only, knowing that the loan must be automatically repaid in the morning. In the language of the broker this is "bad money," as distinguished from the great proportion of the money borrowed from the joint stock banks. "Bad money" has to be repaid at once. "Good" money, while liable to be recalled on short notice, is, generally speaking, constantly renewed.

The fourth form is called "privilege money," a form of loan which is steadily going out of favour with the banks. It is usually a certain fixed sum which some of the large discount houses have arranged with the banks shall be at their disposal, should they desire to transact business

just before closing time, when it would be impossible to get in touch with the banks, in order to make the necessary arrangements enabling them to balance their books. The disadvantage to the banks is that they are always in doubt as to the amount of such "privilege money" in actual use.

When money becomes very "tight" the newspapers will often state that the Money Market is "in the Bank." This means that the discount houses and bill brokers, unable to get the accommodation they require from the joint stock banks and other institutions, have had to go to the Bank of England. They do everything they can to avoid this for several reasons.

First, they have to pay more for the accommodation granted to them, the charge for interest being generally one-half per cent. over Bank Rate. Second, there is no "day to day," or "over-night" lending by the Bank of England. Loans are made usually for one week, sometimes for a few days longer. The Bank is particular in seeing that only a certain total of advances to the Money Market matures on any one day, and no borrower is allowed to have more than the Bank considers he can reasonably repay on one day. It is often necessary, too, to find a larger margin. Bills or "floaters," deposited as security for loans, have to be of a value slightly in excess of the amount of the loan. This excess is the margin.

V

The Money Broker

These are the main operations of the Money Market. There are still one or two special features which should be mentioned in order to make the story complete. First there is the Money Broker, a member of the Stock Exchange, who, in addition to his ordinary business of dealing in stocks and shares on behalf

of his clients, acts as an intermediary between smaller Stock Exchange firms and the banks. The banks do not approve of the more speculative Stock Exchange securities as collateral, and decline to lend against them. Here the Money Broker comes in. He obtains funds from the banks by depositing high class securities with them for which he pays only a low rate of interest. He then lends the funds to his fellow stock brokers, on more speculative securities, at higher rates. He needs, of course, to be a close student of market conditions, and is naturally extremely careful to see that there is a substantial margin between the value of the securities he takes and the advances he makes.

Accepting and Issuing Houses

Then there are the Issuing and Accepting Houses which play no unimportant part in the Money Market organisation, although they have well-defined duties of their own.

The special object of the Issuing House is to act as an intermediary between investors with capital and companies requiring capital. The method of operation may be summarised as follows: A company requires fresh capital for building a new factory, laying down new plant, financing new enterprise or any other of the many necessities that arise. Possibly it already has authorisation to raise the money by a new issue of shares. If not the Directors ask the shareholders for power to create new shares. When the preliminary steps are completed the problem arises of selling the shares to investors.

Here the Issuing House functions. Its officials are taken into consultation by the Company. First class houses insist on carefully examining the proposition before consenting to act. They have a reputation to protect, for, although they in no way guarantee the soundness of share issues in which they are concerned, the more par-

ticular they are the greater the confidence of investors in the issues they sponsor. Incidentally it may be remarked that the character and standing of the Issuing House should always be taken into account when investors are considering the virtues of a new issue. The Issuing House having satisfied itself that the issue is one which it is justified in acting for, a contract is signed under which it makes itself responsible for the detailed work of the issue. It advises on the drawing up of the prospectus, arranges the underwriting, plans out the advertising and in fact does everything it can to make the sale of the shares to the investing public a success.

It is when the prospectus is out and the subscriptions to the shares come rolling in that the Issuing House becomes a factor in the Money Market. Until the allotments are made the money subscribed remains in the name of the Issuing House, and is available to be lent to the market in the form of "Short Credit." The amounts thus available are on occasion very substantial, for States and Corporations, whose borrowings are reckoned in millions, as well as public companies, use the Issuing Houses as the means of approaching the public.

The operations of an Accepting House are more strictly of a Money Market character. They are neither borrowers nor lenders in the real sense of the terms. Their function is rather that of testing and hall-marking the bills which are the commodity in which the Money Market deals. The quality of a bill of exchange is determined by the financial standing of its acceptor. A bill bearing the name of a particular house whose credit stands high, is termed a first class bill, and is discountable at a lower rate than bills of lesser standing. Certain firms, for a commission, are willing to place their good name to a bill as acceptor. It is thus possible for a person who, though quite trustworthy, has no standing in the financial world, to

obtain the use of a name of high repute on his bills of exchange. Needless to say all stages in the transaction are fully covered by the documents of the goods which are the subject of the bill.

Here is a typical transaction shorn of its trimmings. A grower overseas sells to a distributor here and draws a bill on him for the proceeds. The distributor, of no financial standing, arranges with an Accepting House to accept the bill against the bills of lading. The grower can now at once dispose of the bill for cash in the London Money Market, leaving the distributor to finish the bargain with the accepting house.

VI

Trade Influences

It will have now become apparent to the reader that the condition of the Money Market depends upon the plentifulness or scarcity of money at its disposal—which Bagehot called "the floating loan fund." This in turn depends upon the condition of trade; it also depends on the stock of gold at the Bank of England. Bad trade throughout the country tends to make money plentiful and, therefore, "cheap" in the City; manufacturers and merchants have a portion of their money idle, because, with bad trade, it is not fully employed. When trade is brisk the condition of the money market is conversely affected. Manufacturers and merchants can employ all the money they can get to finance their operations, and so money becomes scarce in the City, or "dear."

When we read in the financial columns of the newspapers that "the market has to-day borrowed largely from the Bank of England," we shall understand then that the "market" signifies other banks (who keep their principal reserves on deposit at the Bank of England), the discount houses, bill brokers, and other financial institutions.

VII

The Bank Rate

One of the most important factors in the money market is the Bank Rate. The Bank Rate is the official *minimum* rate at which the Bank of England will discount bills of exchange, or lend money for short terms. The Bank rate is fixed and announced at the meeting of the Bank Court every Thursday morning. We shall refer presently to the weekly return issued on that day by the Bank of England giving a statement of its position. Meanwhile, the reader will have obtained from the foregoing pages some indication of the influences that go to regulate the Bank Rate, and the Money Market rate, which, of course, is a different thing.

The influences which affect the regulation of the Bank Rate are somewhat complex. The main object of the Bank of England in fixing the Bank Rate is to maintain its "reserves" at a safe level. What the nature of these reserves are, we shall see presently. We have seen how, in the ordinary course of their business, bill brokers, discount houses and the joint stock banks have at times to fall back on the resources of the Bank of England, and how this arises from the state of trade, from international financial operations and the state of foreign exchanges, which, apart from the ordinary course of international business, may on occasions be affected by political conditions.

As soon as it becomes apparent that adverse conditions are tending to imperil the safe level of the Bank of England's reserve, the Bank rate is raised: the object being to curtail credit, and to attract money to the Bank. The joint stock banks follow the lead given by the Bank of England, and so, of course, do bill brokers and discount houses. A higher rate of interest is charged for discounting bills and for cash loans, and likewise a higher rate of interest is allowed by

the banks for money placed on deposits. Thus, customers are tempted to increase their deposits, to restrict investments, and, it may be, to curtail their business operations rather than pay high rates of interest for loans, or overdrafts. The general tendency will be for money to be left with banks, and the Bank of England's reserves will be restored.

These measures may not prove effective, and we may witness the strange anomaly of the Bank of England itself going into the market to borrow money it does not want. As Mr. Hartley Withers puts it: "To make its rate effective, the Bank of England often has to borrow money that it does not want, because, the market supply of money being abundant, it knows that the bankers and brokers will continue to discount bills at rates which will keep the foreign exchanges against us, unless a curtailment of the supply of money is carried out. In other words, the credit-making machinery has worked so efficiently in the output of its product that the Bank of England, which has to be ready to meet the liabilities so created, has to take some of the output away from its holders, and pay them a rate for restricting their temptations to take bills at too low rates. This it does by going into the money market and borrowing. Any money that it borrows can only be got back from it by being borrowed again, and it, of course, only lends, at its head office, at the official rate, or $\frac{1}{2}$ per cent. above it."

In this way, then, the Bank of England forces the pace by reducing the balances of the joint stock banks. These banks in turn call in their loans, and further restrict the operations of the bill brokers; if they do not, the discount rates are eventually forced up to a point at which they will become effective. The Bank of England may also, when there is a drain on its resources, buy gold bullion and issue notes against the bullion so held.

This is not an exhaustive description of all the factors that enter into the problem, but we have said sufficient by way of illustration to make the subject clear to the lay reader, who will realise in what way the supply of floating loanable capital is reduced when occasion demands it, and how the Bank of England brings it under its own control for the time being.

When the discount rate in foreign countries for bills of exchange is higher than the discount rate in this country, the tendency is for gold to pass from this country for employment in another country; conversely, the same thing applies, and we see shipments of gold to England. The danger of an outflow of gold from this country is, therefore, obviated when bills of exchange abroad become fewer, and as competition for them becomes keener the rate of exchange in favour of this country will rise.

The Bank of England Weekly Return

We need not burden our subject with the question of the gold reserve, nor attempt to give an elaborate explanation of the weekly return issued by the Bank of England, giving a statement of its position. It is examined with keen interest as a key to the condition of the Money Market as a whole. The return includes, on one side, the Bank's stock of notes and of gold and silver coin, Government securities, and other securities held, against which is shown on the other side the Bank's liabilities in respect of public and other deposits.

The amount of "reserve" shown by the weekly return is the main point of interest to the Money Market, the reserve being the notes and

the gold and silver coin held by the Bank.

The "authorised note issue" of the Bank is £19,750,000, the greater part of which is backed by the debt of the Government to the Bank. The Bank may issue, in excess of the amount legally authorised, as many notes as may be required for the purposes of commerce, but this must be backed by the setting aside of gold bullion, or specie, in the possession of the Bank. The reserve, therefore, which we have mentioned, is the surplus of notes, gold and silver held by the Bank *after* setting aside the proper amount of gold as the backing for the note issue. The bigger this reserve, the stronger, of course, is the position of the Bank.

Gold is always coming into and leaving this country, and the problem is to see that more does not leave the country than is safe. It is the case, of course, that gold bullion is often shipped out of the country to liquidate debts, when high exchange rates make that a cheaper mode of settling debts than by bills of exchange. The factors which affect the Bank return issued each week are many and complicated, as we have explained.

The point the Money Market is concerned about is the Bank rate, that is, the rate fixed by the Bank of England as the minimum at which it will discount Bills of Exchange, or lend money for short terms; if the reserve we have referred to is low, and gold is being sent out of the country, the Bank rate is fairly certain to be raised; conversely, the Bank rate is likely to be lowered. The raising of the Bank rate is, as we have explained, the method of attracting money to the Bank and gold from abroad, where its value for the time being is less than in this country.

CHAPTER VII

INTERNATIONAL EXCHANGE

OR

**THE FINANCIAL MACHINERY
OF FOREIGN TRADE**

BY
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Fellow of the Institute of Bankers and of the Royal Economic Society. Author of
"Banking and International Exchange," "Foreign Exchange and Foreign Bills,"
"The Finance of Foreign Trade," etc.

The "Mystery" of Foreign Exchange—Trading in Money—Methods of Remitting Money to Other Countries—The Elementary Principles of Exchange—The part Banks play—Helping the Importer and Exporter—Meaning of "Spot" and "Forward" Rates—What Influences Exchange Rates—Eliminating Risks—Documentary Credits—The Discount Market.

I

Foreign Exchange

FOREIGN exchange, or to use the more correct term, international exchange, is a subject upon which every business man should be informed. Expert knowledge is not requisite, but a working acquaintance with the principles of international exchange, so far as they concern the merchant, trader, or the man engaged in commerce, is very desirable. Many a man is appalled by the seeming mystery which appears to surround exchange; others come to grief over speculating in the buying and selling of foreign currencies, while some quit the problem by telling one that they are content to leave the settlement of exchange in the hands of the banker. They might do worse; yet in this branch of finance, a little learning is not a dangerous thing.

We propose, therefore, in this

chapter, to give the reader just so much of the business of exchange of one currency into that of another as will enable him to deal intelligently with his banker or other financial agent.

Trading in Money

The problems that underlie the subject are many, but actually they are largely interwoven with the settlement of international indebtedness. In our banking chapter we have shown that much of a banker's business comprises operations that partake of the exchange of credit instruments representative of money. The banker, so to speak, acts in the domestic trade of the country as the intermediary for the transfer of money from one person to another, either by cheques, bills of exchange, or other documents. When he discounts a bill for a client, for example, it is a simple case of domestic exchange.

The bill of exchange is evidence of indebtedness; the banker in discounting an accepted bill, in effect, buys a debt from the seller.

In international exchange, the part that largely interests the business man is the paying of debts in the currency of a foreign country on the one hand, and, on the other hand, the selling of claims to money—evidence of indebtedness of foreign persons to him. Just as with the home commerce, so with international commerce, the banker is occupied in assisting his customers with payments which are to be made and received in connection with the operations of foreign centres. It is usually a question of degree; small operations in international exchange will frequently be carried on between debtor and creditor respectively, without much risk to either; larger transactions will call for the banker.

To be in a position to undertake foreign exchange business, a banker has to maintain accounts at various foreign centres; he accumulates a stock in trade—that is, the money of other countries. To him, in fact, this foreign money is really a commodity which he has the right to sell, or, when he wants to replenish his foreign balances, to buy.

The banker is therefore in the same position as a commission merchant, who, while buying and selling large quantities of commodities, keeps only a small stock on hand. Generally speaking, whenever any exchange is sold, the transaction is covered by a corresponding purchase. Similarly, when any exchange is bought, the transaction is covered by a corresponding sale. The profit to the bank in each case is the difference between the rate at which he buys or sells and the rate at which the transaction is off-set, all expenses being taken into consideration. The bank, as we have stated, is the intermediary, and it must keep in touch continually with the foreign

exchange markets of the world so that it may be able to undertake economically the business which merchants and others require to be settled.

II

Remitting Money to Other Countries

The trend of international exchange quotations may be easily followed by diligent perusal of the day to day rates quoted in the morning newspapers. We will not burden the reader with the usual long list, since every man who has foreign currency to buy or to sell, will know quite well the particular currency in which he wishes to deal, whether it be francs, pesetas, dollars, taels, or piastres. For instance, if the reader wants to take a trip to Paris to interview French buyers or sellers of produce, he will know that it is francs he wants to buy in exchange for sterling, and if he has any of that erring unit in his possession when he gets back to London, francs it will be that he wants to sell for sterling, and so on.

There are various ways of remitting money to or from a foreign country. The main object is to get the money transferred in the cheapest possible way without the necessity of sending coin, which is at once both the most expensive and the most risky way of paying a debt.

Apart from the remittance of coin or bullion—a business that is best left in the hands of bankers or bullion brokers—money is transferred from one country to another in three main ways: by demand bills, that is bills of exchange payable on demand or at sight, by bills payable at so many days after date or sight, and by telegraphic transfers, or as they are sometimes called—cable transfers. We will assume for the moment that these are all banking instruments.

Let us first take the telegraphic transfer. This particular method of exchange forms a convenient basis

for explanation, because, payments in the one country being made and received in the other country on the same day, the element of time is eliminated, and we can dispense with such disturbing factors as stamps, interest, and accepting commissions. In these days of inflation and depreciated currencies, transactions in foreign exchange by means of telegraphic transfers are by far the most frequent. In practice they are used when it is desired to settle obligations in foreign money immediately, and so avoid the delays incidental to sending remittances by mail. Fluctuations in exchange are therefore avoided.

The telegraphic transfer reduced to its simplest terms, is an order by, say a bank in London to a bank in a foreign country, delivered for immediate transmission by cable. The remitting banker orders the payment of a specified amount to a third party to the debit of the London bank. Such orders to pay are sent in code and the expense of cablegrams is thus reduced to a minimum.

The Elementary Principles

A homely illustration will suffice. We will take that ubiquitous person the remittance man. His father in London desires to send the prodigal son, say the equivalent of £100 payable in Montreal. He goes to a London banker and asks him to transfer the money to the Canadian centre by telegram. The banker will quote him the rate of the day, say \$4.866 to £1. If poor pa is satisfied with the rate, he will hand the banker £100 and that gentleman will forthwith cable to his Montreal agent to pay to the said prodigal son \$486 (100 × 4.86). When the cable reaches Montreal, the bank there will pay the son on identification that sum, and the youth may then continue to dissipate his father's hard-earned resources. So with commercial remittances by telegraphic transfer—immediately the money is paid here,

instructions will be sent by cable to the foreign centre to pay the person named the equivalent of the money in foreign currency at the agreed rate of exchange.

Suppose, on the other hand, it be desired to send a demand draft to a man in a foreign country; the remitter will possibly purchase a banker's bill. Here the element of time is introduced. To take New York as our objective; the time of the mail steamer is usually reckoned as about eight days. For that period, then, the banker has the use of the client's money, and he can afford to give a slightly increased equivalent in dollars in exchange for sterling, the difference being the interest at about the ruling rate for the period it is estimated the bill is *en route*. The buyer will thus receive more American money in exchange for each pound sterling.

This bank bill is merely a written order from one bank, addressed to another, instructing payment of the agreed amount. It may be either made out in favour of the person purchasing it, in which case he will endorse the bill over to the beneficiary, by writing on the back, say, "Pay Tom Jones or order," or, if it is desired, the bill may be drawn payable to the person to whom he wishes to send it. With all these drafts prompt advice is sent by the issuing bank to the bank in the foreign country upon which they are drawn, so that the banker there may pay the amount promptly on presentation, subject, of course, to proper identification.

To come to the third bill, the one payable at say three months after sight, that is, payable three months after it has been presented to the person upon whom it is drawn and accepted by him. Now here a further element of time is introduced. The person who receives such a bill has to wait three months after the bill has been accepted before he can get his money. The purchaser will therefore expect to get it at such a rate

of exchange as, after allowing for discounting (i.e. the charge for melting or turning the bill into ready cash) in the market in which it is to be paid, will put his creditor in no worse position than he would have been if a demand bill had been sent. The banker selling such a bill has the use of the customer's money for three months, plus the time the bill is *en route* to the foreign centre, so he can afford to give to the buyer more dollars and cents, francs and centimes, pesetas and centimos, or whatever be the currency, for each pound sterling paid over.

Commercial Exchange

Thus, in a general way, we summarise what might be called the elementary principles of foreign exchange. In point of fact, rates of exchange may be taken to signify to the commercial man the price in one country of bills of exchange drawn on other countries. They are bought and sold, and are subject to the ordinary laws of demand and supply which govern the purchase and sale of other commodities. They are, indeed, commodities, the particular class of commodity being some form or other of debt.

There are, of course, other disturbing factors, in addition to supply and demand, such as depreciated currencies, the over-issue of inconvertible notes, and political unrest, which affect exchange; but the ever-present problem for the merchant is how best to get paid by his foreign debtor, and how best to pay his creditor in the money of his own country. Commercial exchange relating to the buying and selling of bills of exchange and similar documents really forms the basis of most international exchange operations with which the business man is concerned; they represent payments for imports and exports of goods; consequently, it is to that part of the subject we shall now turn our attention.

In the old days before the Great War we were in a position to force our pound sterling currency on other nations, and whilst the number of their currency units required to purchase sterling was comparatively steady over a long period, the violent fluctuations in exchange rates of recent years have been such that the foreigner is no longer content to be completely dependent upon England for his requirements.

He not only requires quotations in the money of his own country for goods the British exporter wishes to sell, but also claims the right to make payments in that currency, and it behoves the British exporter to adapt himself to the new conditions. Assuming that prices, conditions of sale, etc., have been agreed upon with the foreign buyer, when the British exporter is ready to ship his goods, or very possibly before, he will wish to sell the amount of foreign currency represented by the bills of exchange which he will draw upon his foreign customer for the cost of the goods.

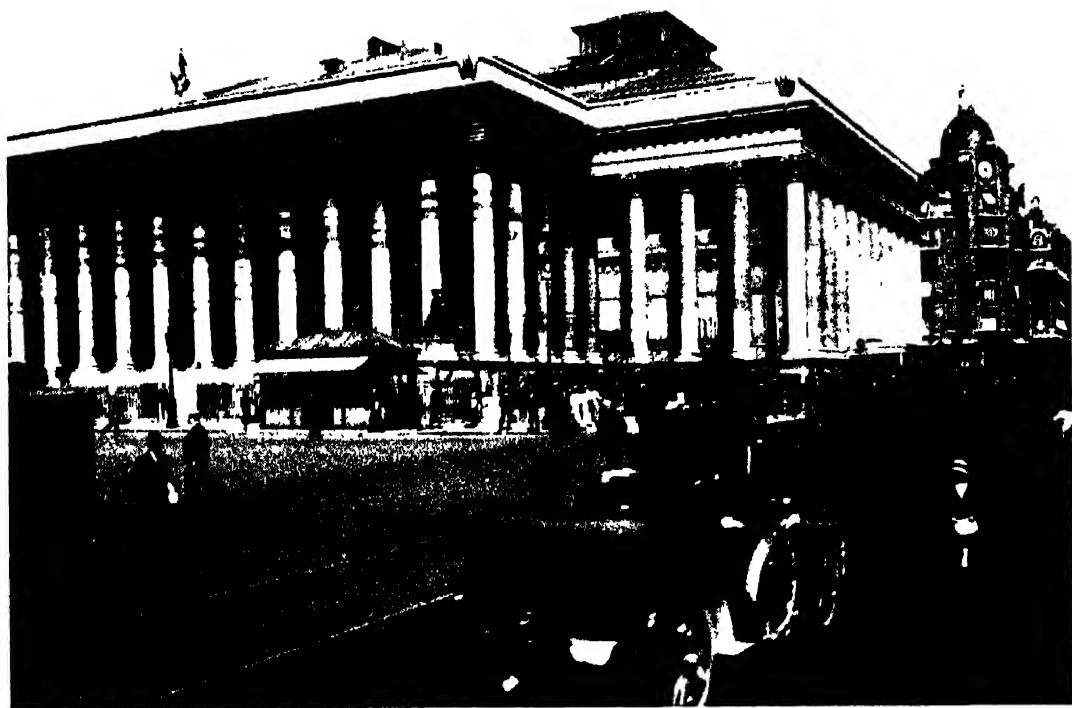
III

The Services of the Bank

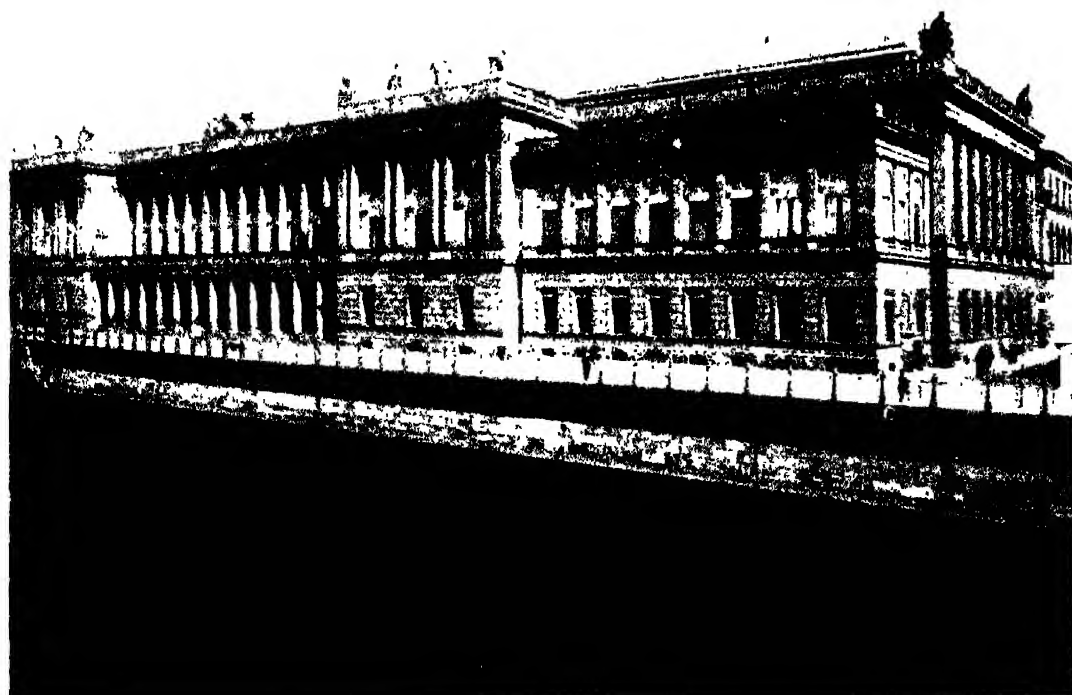
It is here the services of the banker are in request. It just depends upon whether the exporter is going to wait until his shipment is ready before settling exchange, or whether he will take the more prudent course and get exchange fixed some weeks or months ahead, what rate he will get.

First, it should be noted that there are two principal prices for foreign money quoted in the exchange market; that for "Spot" and that for "Forward" exchange. The "Spot" rate is that for foreign money purchased and paid for on the same day. The "Forward" rate is that quoted for the purchase or sale of foreign money deliverable say, one, two, or three months ahead.

Suppose the merchant desires to

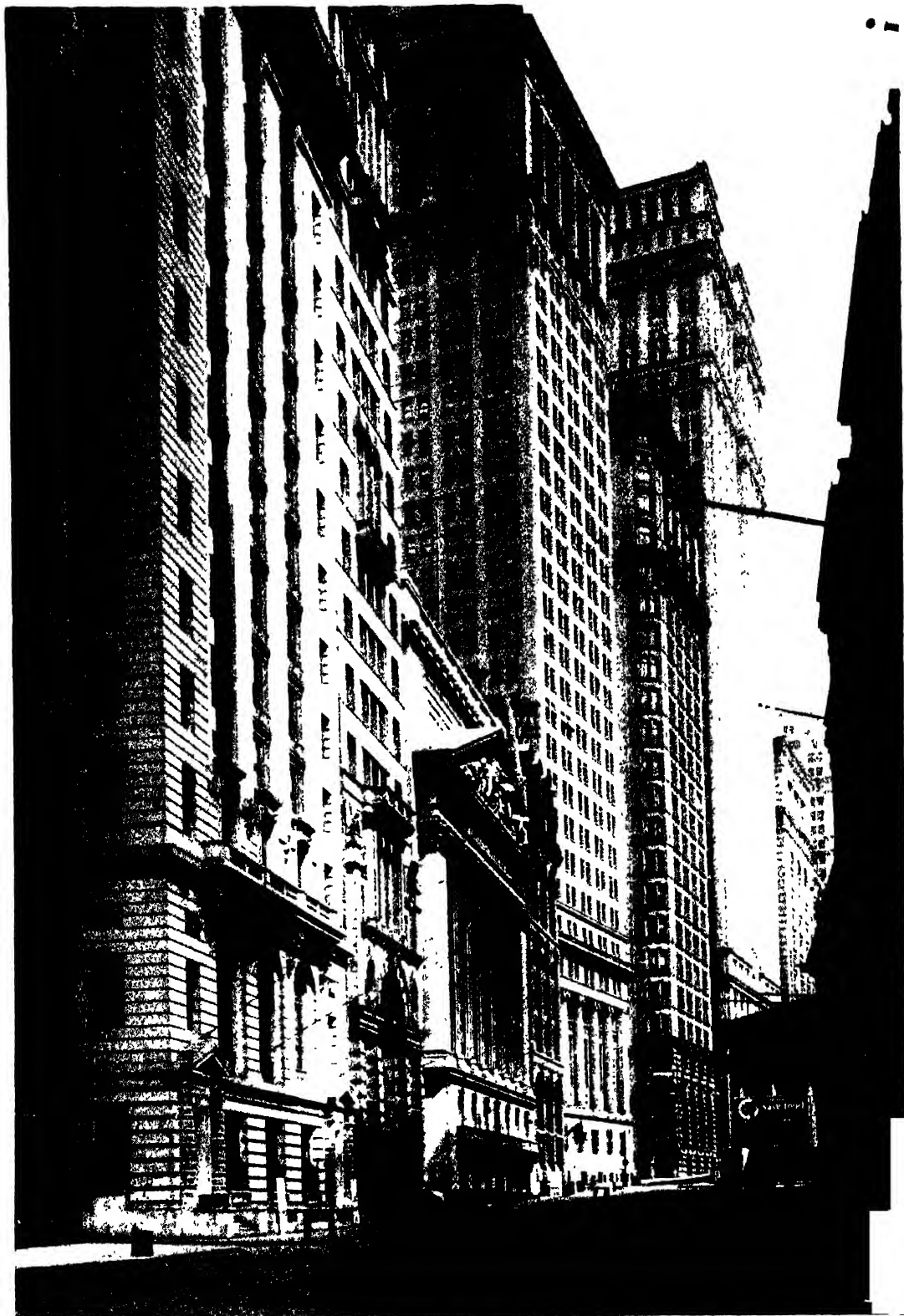


THE PARIS BOURSE



EX 1.

THE BERLIN BOURSE.



E.N.A.

VIEW IN "THE CITY," NEW YORK.

The illustration shows Broad Street, looking north, the Stock Exchange, and a corner of the Sub-Treasury in Wall Street.

escape exchange fluctuations, he can arrange to make an exchange contract with the banker, providing for the sale of so much foreign currency to the banker. He will interview that gentleman, explain just how much foreign currency he wishes to sell, and the banker, after satisfying himself that everything is in order, will arrange to purchase the currency "forward," and will give the exporter a written contract.

The working of this business was recently illustrated by the Westminster Bank Limited in one of its circulars. On the assumption that a merchant in London had agreed to sell at a price quoted in Dutch florins, it was shown that the bill would be drawn in that currency. The bill would be sent by the Westminster Bank to its correspondent in Amsterdam, the bank there would collect the exact amount in florins, the equivalent of which will be credited by the Westminster Bank to its client at the rate ruling on the day it receives advice of payment. But, to safeguard the merchant against fluctuations in exchange, the Westminster Bank can, if desired, arrange beforehand by means of "forward exchange," the rate at which the currency will be credited, the exporter being thus enabled to fix his price without fear of loss from exchange fluctuations. Further, if required, the foreign currency so collected may be held for his disposal in any way and at any time he may wish.

By waiting until the time of shipment, the exporter, of course, might make an additional profit (or perhaps net a smart loss), but in most cases when selling goods to a foreign importer, it is better for him to protect himself by entering into a forward contract with his banker. Therefore, in negotiating with a foreign buyer, it is to the merchant's advantage to ascertain the rate of exchange so that he can fix a satisfactory selling price, and when the sale is concluded

and the exchange covered as on that day, the exporter knows exactly the sum of money in sterling he will get when his goods are ready for shipment. All he has then to do is to produce his bill of exchange, to which is attached the documents of title to the goods, hand these to the banker, and receive in exchange the value of his wares. He has sold exchange, the banker has bought it.

Helping the Importer

The importer in London can act somewhat similarly. Experience has shown, as one of the great exchange banks (the Guaranty Trust Co.) has emphasised, that when an importer buys merchandise from a foreign country in terms of the money of that country, it is generally advisable for him to enter into a forward contract with a bank to purchase the amount of foreign money involved, whether the shipment is to be made prompt or some weeks or months later. In this way the cost price of the merchandise may be immediately ascertained and the importer, knowing exactly what he has to pay, is protected against future fluctuations in exchange.

A practical example of the working of this business, again by the Westminster Bank, may be given. Let it be supposed that a merchant in London has contracted to buy goods from one in New York. The latter draws a bill and, with the required shipping documents attached, hands it to his own bank. It is assumed that this draft is sent by the American bank to the Westminster Bank. The latter institution, acting on behalf of the American bank, will, on receipt of the bill, send it along to the English importer, who, having satisfied himself that the invoice is correct, that the Bill of Lading is in such form that he will be able to obtain the goods without trouble, and that the insurance policy adequately covers the value of the consignment, will forthwith honour the draft.

As we have stated earlier, there is a growing tendency for foreigners to trade in and to demand payment in their own currency. We assume, then, that the draft received by the Westminster Bank is in dollars; the exact amount of such currency must be forthcoming before the relative documents will be surrendered. The English importer, in such a case, is more or less compelled to purchase a sufficient amount of dollars and cents with which to pay for the goods he wants, and, if he wishes to avoid loss in the exchange, he must give consideration to a favourable moment for buying.

If the currency is fairly steady, he can await the arrival of the documents and buy at the rate of the day of presentation, but if exchange is liable to violent fluctuations, as is so often the case, and he fears that the rate may go against him, he can contract with the Westminster Bank, when he first makes his purchase contract with the seller, for the purchase of the estimated amount of currency for "forward delivery." This means that, no matter to what extent the rate of exchange has moved by the time the draft is presented to him, he will only pay the sterling equivalent at the agreed rate. The bank practically eliminates the exchange risk for him.

IV

"Spot" and "Forward" Rates

There is often a good deal of discussion about the differences in "spot" rates of exchange and "forward" rates, and when the merchant finds that if he is selling, say francs or dollars to a banker, and the latter quotes him a worse rate than, say the ruling "spot" quotation, he often gives vent to a growl and leaves the bank with the feeling that he has been mulcted by the banker. To dissipate this illusion, let us see how the banker arrives at his rates for "spot" and

"forward." The "spot" exchange is not difficult to understand—it depends to a large extent upon the cost at which the banker has been able to pick up the foreign money himself. He may, in fact usually does, buy a good deal of "spot" exchange on the home market.

Exchange Rates

He may, however, have to buy and make exchange available in a foreign market. That is to say, if John Smith has the right to \$1000 in New York and he sells that right to the banker, to whom the balance is subsequently transferred, then the total cost to the banker of the purchase from Smith will govern, more or less, the "spot" rate at which he is willing to sell dollars. Demand and supply, however, again enter into the question—and a banker may be forced to sell at lower rates owing to larger supplies and competition from other sellers. With the "forward" rate, other factors intervene. Generally speaking, the rate at which the banker will buy or sell forward will depend upon the rate at which he expects to be able to cover his operations.

Apart from this, it also depends upon the cost of transferring money to a foreign country; but here is the important factor. Forward exchange is also influenced by the rates of interest ruling on two markets, home and foreign. With a low rate of interest for loanable funds for short periods in London and a high rate of interest, say in New York, the tendency will be for money to flow to the U.S.A. to be employed there in short term loans at the higher rate of interest ruling.

The higher the rate of interest in the foreign centre, the better will be the rate the banker can quote for forward exchange; or, in other words, if he is getting a good rate of interest for his money in New York, he can afford to part with it to the buyer

of forward exchange in the shape of a better exchange rate: in effect the banker surrenders part of the interest he is receiving to the client. Competition from other sellers of forward exchange again enters into the business. By force of competition a banker may be induced to cut his rates.

This, of course, is a very bald statement of a big problem, but sufficient has been said, we hope, to make it plain to the reader that the comparative cost to the banker of accumulating funds in a foreign centre, and the interest earned on them there, have much to do with rates of exchange which will be quoted for forward deals. The forward market in London is now so well organised that neither the exporter who wishes to settle in advance the sterling he is to receive for a certain amount of foreign money, nor the importer who desires to ascertain in advance the amount of foreign money which he can purchase with a given amount of sterling, has any excuse for taking exchange risks.

The operations of the importer seeking to protect himself by a forward purchase, and those of the exporter seeking to protect himself by a forward sale, each can be arranged through the banks, which act, not as speculators in exchange as is so often imagined, but as the clearing house for the exchange operations of their clients.

The business of international exchange does not entirely consist of the purchase and sale of foreign currencies, at least directly. Monetary receipts and payments arise from a multitude of causes and are effected in a multitude of different ways. So in any bank dealing in foreign exchange there will be a number of transactions, exchange of documents, credit instruments and the like, all making for one common end—the settlement of international indebtedness in its various forms.

V

Eliminating Risks

Within the limits of this chapter we can deal but briefly with the principal features, that is, with those that affect the business man. To take the most common case, the merchant shipping goods to a foreign centre. Possibly he cannot get his money before the bill is paid. He can, however, usually arrange with a bank to take his bill with the relative shipping documents attached, bill of lading, invoice and insurance policy. The bank will send these to its foreign agent for collection and payment in due course. When the bill is paid the bank will hand the money to its client, less sundry small charges. The bill being in sterling, no question of exchange arises so far as the customer is concerned. That is the bank's affair.

Where, however, the bill has had to be drawn in foreign currency, the amount is collected by the bank, who will pay over to the customer at the rate of exchange ruling on the day of payment. The exporter takes the risk of exchange fluctuations, though, as we have shown, he can circumvent them by selling exchange forward to the bank. There is another way. The exporter can often avoid exchange risks by insisting that the foreign importer himself arranges through the banker what is called a documentary credit.

Documentary Credits

If the banker in the foreign country is satisfied with the business and the importer there agrees to the terms and conditions incidental to the opening of the credit, that banker will advise his London correspondent that a credit for the value of the goods to be shipped is to be made available for the London exporter. The latter then can go merrily ahead, prepare his shipment, get ready the shipping documents and bill of exchange, and

when everything is in order, he goes to the bank in London, which will purchase the bill and forward it to the bank's overseas correspondent, who in turn will get payment from the importer. By these documentary credits an obvious gap is bridged, for the intermediary banks safeguard both the interests of the exporter and those of the foreign importer, the former ensuring that payment will be made to him as soon as he has carried out his part of the contract and shipped the goods, the latter resting content in the knowledge that his money will be paid away only in exchange for the goods he has contracted to buy, or rather the documents of title thereto.

Of these credits there are many: some are confirmed, others unconfirmed; some are revocable, others irrevocable. Some provide for bills to be drawn upon and accepted by foreign importers, in others the banks themselves agree to accept the bills. The parties to the contract of sale will, of course, stipulate which credit it is they want to be available. An unconfirmed credit is, it should be noted, subject to cancellation, with or without notice, it is claimed. The value of an unconfirmed credit some bankers say is just what value you put on it! With an honest buyer there is little to fear, but with a slippery customer, an exporter might prepare his shipment and suddenly find this form of banking accommodation cancelled or revoked.

It should be noted, however, that the banks themselves are very chary about accepting instructions to cancel credits, and will not agree to revoke them without very good and sufficient reasons. A confirmed, or irrevocable credit, on the other hand, as the Westminster Bank points out, carries the issuing bank's absolute guarantee of payment. It may not be cancelled without the consent of the beneficiary (*i.e.* the exporter), and this, provided he can fulfil his part of the contract, he is not likely to give.

All these credits have for their object the giving of power to the beneficiary to draw bills of exchange upon a named foreign importer or bank, and the said bills, when presented with the relating shipping documents, are purchased promptly. There is this to be noted, that, should the bills not be paid, the bank can usually claim back on the drawer of the bill for payment, plus all expenses incident to the dishonour of the bill, always provided, of course, that no clause or stipulation has been inserted in the credit or bill negating the drawer's liability.

Credits may be revolving, that is to say, when the amount for which they are opened is exhausted, they become automatically re-available for bills to be drawn within the limits named. Where sterling bills are negotiated under the authority of letters of credit, there is, of course, no risk of exchange to the exporter, the burden is taken by the importer, and when the sterling bills arrive in the foreign country he will have to pay the equivalent in the money of his own country at the ruling rate of exchange.

Banks "Accept" Bills

There remains the cases where bankers themselves accept bills of exchange. This is a useful form of finance, since immediately the banker has accepted a bill drawn upon him, the merchant or other commercial man can then get it discounted on the market at the ruling rate of discount for bank bills, and has thus liquid funds immediately available for employment in his business. The method of working this business was recently summarised in a speech by the Chairman of Barclays Bank, Limited, Mr. F. C. Goodenough, and his remarks are well worth recording.

Briefly stated, he showed that it is the practice of the accepting houses, in return for a small commission, to guarantee the fulfilment of contracts,

by accepting bills drawn upon them by sellers of goods, instead of the sellers drawing direct upon the buyers.

For example, let us suppose that a merchant in the Argentine wishes to sell goods to a buyer in this country, but is not sufficiently acquainted with the standing and resources of the buyer to allow him credit. In these circumstances the seller would ask the buyer to make arrangements with a bank or accepting house for a credit, and the seller, instead of drawing his bill on the buyer, would draw upon the bank or accepting house. The bill would be accepted by one of those institutions, and the buyer would agree with the acceptor to provide the funds necessary to meet the bill at maturity.

In this case the seller is practically relieved of anxiety as to the due payment for the goods which he has sold, and, in addition, he would have no difficulty in financing the transaction because the accepting houses have built up a solid reputation and have inspired the confidence of banks, so that bills drawn under credits opened with them can be negotiated at any time and in any part of the world. Without some machinery of this kind, world trade, as we know it to-day, would be impossible.

The same principle holds good in the case of exports from this country. An exporter may receive an order from a trader abroad, but the foreign buyer may be quite unknown to him. The bank or accepting house, however, may be well acquainted with the foreign buyer's standing and resources and willing, therefore, to guarantee the transaction on his behalf by opening a credit at his or his banker's request. In this way, the exporter in this country can proceed with the manufacture and shipment of the goods, being fully satisfied that payment will be forthcoming in due course.

VI

The Discount Market

The discount market was also dealt with by Mr. Goodenough; he showed that the discount market is really a corollary to the accepting houses, and, we would add, to the foreign exchange market. It is the business of the discount market to buy and to sell bills of exchange. For this purpose the discount market employs its own capital, receives deposits from the public, borrows freely from the banks upon the security of bills, and, in case of need, re-discounts bills with the banks or with the Bank of England.

In this way there is ensured a free market for good bills of exchange in London, and the fact that there is no difficulty in converting sterling bills into cash in London when required, forms an important factor in their world-wide negotiability. There is constantly a flow of funds from foreign centres for investment in London bills, and these constitute important international exchange operations, which grease the wheels of commerce for our own business men.

There is, moreover, a further point. The rates charged for discounting the acceptances of the leading English financial houses are much lower than would be charged upon the acceptance of ordinary commercial trading houses, the difference in rates being usually sufficient to off-set the cost of arranging acceptance facilities. The efficiency of the London financial organisation has made the sterling bill the most popular instrument of international trade, and the services of the acceptance and discount markets are utilised, not only for import and export transactions with this country, but also for direct trade between overseas countries themselves which never touches these shores.

CHAPTER VIII

THE STOCK EXCHANGE

BY

H. S. OAKLEY

The London Stock Exchange—Conditions of Membership—Difference between Brokers and Jobbers—Rates of Commission—Provincial Stock Exchanges—Outside Brokers—Glossary of Terms Used—How Prices are Quoted—Underwriting—Different Classes of Stocks and Shares—Lists of Securities—Industrial Shares.

I

INTRODUCTORY

THE London Stock Exchange to-day has about 4000 members, and there are in addition just under 2000 clerks, "authorised" and "unauthorised" who have the right of admission to the "House." Every member has to be elected annually. Discretion regarding the re-election of members is absolutely in the hands of the Stock Exchange Committee. The Rule, No. 21, Section 2, dealing with this matter is very explicit. The power to re-elect is declared to be "purely discretionary," and it shall be exercised by the Committee in a "perfectly uncontrollable manner." The decision of the Committee "shall not be liable to be disputed or challenged by any individual affected thereby," nor shall the Committee be under any obligation to give notice of reasons or grounds on which they are proposing to act. Indeed, the rule declares that the Committee "*shall not* disclose or state to any person whose application they have rejected, or to any court or tribunal, the grounds or reasons of, or for, such rejection."

An Autocratic Body

Under this rule the Stock Exchange Committee has become one of the

most autocratic bodies in the land. Its power over the members of the Stock Exchange is absolute. One result of this absolute power and the care and wisdom with which it has been exercised, is that the integrity and probity of the membership ranks very high indeed. The rules are designed to protect members in their dealings with each other. They go still further than this, for they are also planned to protect the investing public. The object has been first to build up an organisation with machinery as nearly perfect as possible, and second to make the business transactions of the investing public with that machine safe and secure.

Only one criticism might be urged against the organisation. The absolute power of the Committee has given an immense importance to precedent. The proposers of any innovation, or change, have invariably a tremendous fight to wage with conservatism in the exact sense of the word. The autocracy of a committee is a very different proposition from the autocracy of an individual. The majority of a committee, while insistent on maintaining the full responsibility and authority delegated to them, are always extremely chary of making any alteration which tends either to

increase that responsibility or lessen that authority. The answer to such criticism is obvious. An institution dealing with such immense, wide-spread and manifold interests should at all times seek stability in its rules and methods. Every change must interfere with the smooth carrying on of business. Therefore, while the members of the London Stock Exchange would resent any suggestion that their organisation is behind the times, the large majority will be found in opposition to any but the most carefully thought out and thoroughly discussed changes.

It is at times of crisis, such as that the nation faced in 1914 on the outbreak of the Great War, that the advantage of such an autocracy as the Stock Exchange Committee becomes evident. With no one to say them nay, and with no fear of their actions being challenged in the courts by any of their members who might feel aggrieved, the Committee was able to make such modifications in their rules, and to add thereto such new regulations, as to enable the organisation to surmount the grave difficulties of the time, and to retain to the full the confidence of the investing public.

Membership

The cost of membership of the Stock Exchange cannot be regarded as expensive in view of the large business opportunities it opens. Any man who can obtain three recommenders and can satisfy the Committee as to his suitability can secure membership. Such a man would pay 600 guineas for entrance fee, and about £1,250 for a nomination. In addition he has to pay 50 guineas annual subscription and to buy three shares costing about £200 each. Thus the total cost is under £2,550.

Apart from the payment of the necessary fees, the three recommenders are the important feature of membership. The three must make themselves liable for £500 each if their

candidate shall, within four years of his admission, be publicly declared a defaulter. This suretyship is not a mere nominal matter. The liability is strictly enforced on all occasions that arise, although fortunately these are very few and far between. In order to make the surety as gilt-edged as possible, no recommender can act for more than two (or in certain cases three) new members during the same period.

Special provisions are made for those who, having served their apprenticeship with a firm of members of the "House," desire to become members themselves. Every member is allowed by the rules a certain number of "authorised" and "unauthorised" clerks, who have access to the "House" or the settling room. The "authorised" clerk may transact actual business on his employer's behalf, while the "unauthorised" clerk is used mainly as a messenger, but can also be of use as a careful observer of the business in progress in different parts of the building.

For each "authorised" clerk an entrance fee of 50 guineas has to be paid, while the annual subscription is 100 guineas. For an "unauthorised" clerk the entrance fee is 15 guineas, and the annual subscription 30 guineas; while, for settling room clerks, there is no entrance fee, but a subscription of 10 guineas. The man who has served four years as a clerk can become a member if elected on payment of an entrance fee of 300 guineas, and need only find two sureties of £300 each. He must obtain a nomination, but need only buy one share. All members of the London Stock Exchange must be British subjects.

Where an application for membership is made by a person who has been a foreign subject he is ineligible unless he can show that he has been resident within the British Dominions for ten years, and has been naturalised within such Dominions for a period of five years next preceding the date of his application.

II

BROKERS AND JOBBERS

Every member of the Stock Exchange must declare whether he purposes to act as a broker or a dealer, and once having made his decision he cannot alter his status without giving fourteen days' notice to the Committee. This division of members into brokers and dealers (or "jobbers," as they are generally called) is the unique feature of the London Stock Exchange. Its effect has been to make London the freest market in the world for realisable securities. On stock exchanges where there are only brokers transactions must invariably take the form of negotiations; the stockbroker with a client wanting to sell must, before he can carry through the transaction, find a stockbroker with a client wanting to buy, but on the London Stock Exchange there are always buyers and sellers of normally marketable securities.

The two classes—broker and dealer—while part and parcel of the one organisation and possessing equal rights and responsibilities as members, are widely separated in the business they undertake. In the first place no dealer may transact business with the outside public. He is a buyer, or seller, only to those who have the right of admission to the "House." He acts as a principal all the time. Every purchase, or sale, he makes is for his own account, and he is personally liable for carrying it through.

The broker only comes into touch with the investing public. He is an agent carrying out the wishes of his principal for a commission, the terms of which are strictly defined by the Stock Exchange Rules.

These terms, and other rules regarding the manner in which business shall be done by the broker, have been laid down to prevent undercutting and to protect the public from extortion. They have not been allowed,

however, to interfere with the principle that the London Stock Exchange is a private institution completely self-contained, and dealing only with its members. Thus Rule 73 says: "The Stock Exchange does not recognise in its dealings any other parties than its own members; every bargain therefore, whether for the account of the member effecting it, or for account of a principal, must be fulfilled according to the rules, regulations and usages of the Stock Exchange."

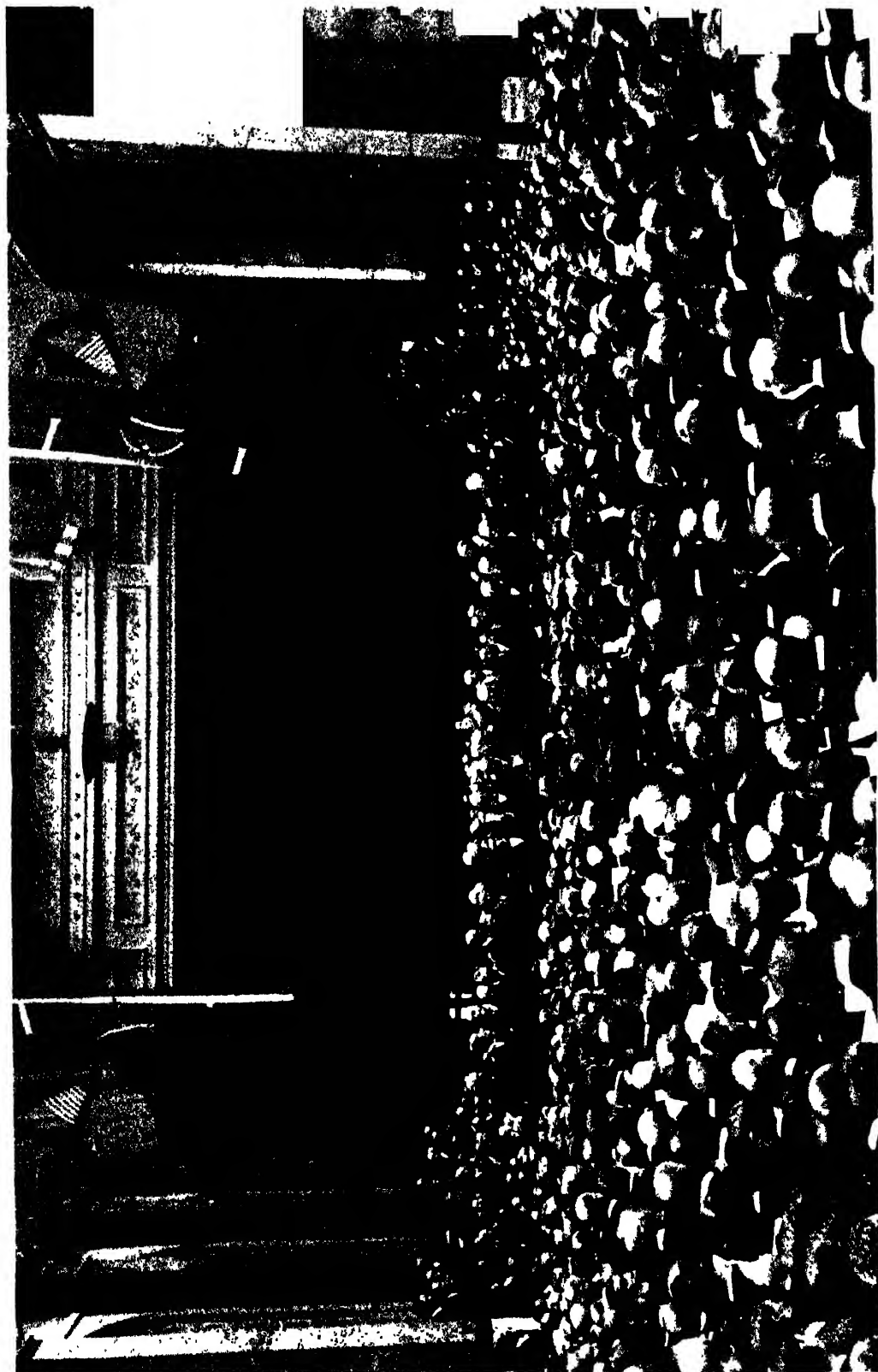
Thus, while a broker acts as the agent of his client, getting nothing out of the transaction beyond his commission, should the client default the broker becomes liable as a principal. The net effect of the position created is that, while a dealer in entering into a bargain has only his own position in relation to the broker to consider, the broker has to be satisfied that the client for whom he is acting can meet whatever liability is incurred.

It is important to note that any form of partnership between dealers and brokers is prohibited. By this rule the outside public is assured that a broker will have no other motive than to do the business on the best terms available.

Their Respective Functions

In another respect the two classes differ in their business methods. The dealer generally selects a particular "market," or class of security, in which to deal. It may be he chooses gilt-edged securities, or Foreign or Home Railways, or some class of industrial shares, or Rubber, Mining, Oil, or Tea shares. According to his selection he will take up his stand in a part of the "House" where the particular "market" is located. Here he will always be found when any broker desires to do business with him.

The broker, on the other hand, is here, there, and everywhere. He may in a single morning have transactions to carry through in every "market" in the "House." It is a great



THE LONDON STOCK EXCHANGE.

This photograph of the interior was taken on the occasion of the visit of the Prince of Wales.

advantage to him to know that, whatever the security he has been instructed to deal in, he is certain to find someone ready to discuss the business with him at a defined spot. Another advantage of the system is that the dealers are generally mines of information regarding the securities in which they specialise, mines which they are always willing that the brokers should tap on behalf of their clients.

But it is a mistake to imagine that, even with the facilities of the London Stock Exchange, business is always done whatever the security which it is desired to buy or sell. This is not the case. A dealer may refuse to deal, and a broker may find it impossible to carry out the orders given to him. Readiness to deal is evidenced by a dealer's willingness to "make a price."

Once a dealer has "made a price," that is, has stated a figure at which he will buy, and one at which he will sell, without knowing what the intention of the broker questioning him is, he must carry through the bargain if the price is accepted. Sometimes the amount of stock, or the number of shares involved, is mentioned. When that is the case the bargain is binding on that amount, or part of it. When no amount or number is stated the bargain is only binding so far as £1000 of stock, and 100 shares of less than £1 in value are concerned.

The Dealer's Profit

The dealer relies for his profit on the margin between the buying and selling price he quotes, technically known as the "jobber's turn." The closeness of that price will depend largely on the marketability of the securities in which business is offered. It may also depend on the capacity of the broker to do the business. From the client's point of view there is an important difference between a sixpenny or a shilling price if shares are being dealt in, or an eighth or a quarter price if stock is the subject

of the transaction. A sixpenny price in shares as compared with a shilling price means that the client, if a buyer, will pay 3*d.* per share less, and if a seller will receive 3*d.* per share more. The same difference is found between an eighth and a quarter price in stock, the transaction, if a purchase, costing 1*s.* 3*d.* per £100 less, or if a sale resulting in the receipt of 1*s.* 3*d.* per £100 more. In other words, the wider the price the less profitable is the transaction to the broker's client.

It must not be imagined that the full margin is always received by the dealers. They often find it necessary, in order to encourage business, to "carry" securities on their books. It may be some time before they find a purchaser, and by that time the market value of the particular stock, or share, may have changed. They may have to sell at a price which leaves them very little of the margin counted on in the initial transaction. The successful dealer must be a man of judgment, with courage and experience, and with a sufficiency of capital to enable him to retain securities when the public for the moment has no desire for them.

The Broker's Income

While the dealer is thus in a similar position to a tradesman making his living out of the profit he is able to secure on the goods in which he deals, the broker's income, on the other hand, is entirely dependent on the commissions he obtains for acting as agent to the real purchaser, or seller, of the securities involved. In acting as agent the broker often finds it useful to give his clients advice, or impart to them the miscellaneous information regarding particular securities which comes to his knowledge.

His access to the "House," his intimate relations with the dealers who specialise in particular classes of securities, often give to him information that can be of the utmost value to his clients. Sometimes he imparts the information in the form of a weekly,

monthly or quarterly letter; sometimes he keeps it for verbal transmission to those of his clients who are wise enough to keep closely in touch with him. When, however, it comes to an actual transaction in some security, the broker has to treat every client alike, on a strictly defined scale of minimum commissions. Though the scale is described as a minimum, it is in reality a maximum, for no broker who desired to retain and extend his business would dream of charging his clients more for the work than they could get it done for elsewhere.

Scales of Charges

The important fact for investors to remember is that a broker may not charge less than the scale if he wishes to retain his membership of the London Stock Exchange. It is an institution in which undercutting is looked upon

as a very serious offence. Stringent provisions are made in the Rules of the London Stock Exchange to prevent evasion of the minimum commission regulation. The commission may not be shared with anyone but a *bona fide* agent, such as a provincial stockbroker or a bank. The minimum scale of broker's commissions as laid down in the Rules for the principal securities is :

On British Government or Colonial securities, on County, Corporation, and Provincial securities (British or Colonial), the commission is at the rate of $\frac{1}{4}$ per cent. (5s. per £100) with a minimum charge of 10s. Consols 2 $\frac{3}{4}$ per cent. and 2 $\frac{1}{2}$ per cent. annuities are an exception, the commission being 3s. 9d. per £100.

On all classes of shares the broker's commission is on a sliding scale, based on the *purchase* price of the shares. The following indicates the charges :

| | | Shares. | | Commission per share. | |
|-------|---------|---------|--------------|-----------------------------------|--|
| Price | | 1s. | 0d. or under | At discretion. | |
| Over | 1s. | 0d. to | 2s. 0d. | $\frac{1}{4}$ d. per Share. | |
| " | 2s. | 0d. to | 3s. 6d. | $\frac{3}{4}$ d. " | |
| " | 3s. | 6d. to | 5s. 0d. | 1d. " | |
| " | 5s. | 0d. to | 15s. 0d. | 1 $\frac{1}{2}$ d. " | |
| " | 15s. | 0d. to | £1 10s. 0d. | 3d. " | |
| " | £1 10s. | 0d. to | £2 0s. 0d. | 4 $\frac{1}{2}$ d. " | |
| " | £2 0s. | 0d. to | £3 0s. 0d. | 6d. " | |
| " | £3 0s. | 0d. to | £4 0s. 0d. | 7 $\frac{1}{2}$ d. " | |
| " | £4 0s. | 0d. to | £5 0s. 0d. | 9d. " | |
| " | £5 0s. | 0d. to | £7 10s. 0d. | 1s. 0d. " | |
| " | £7 10s. | 0d. to | £10 0s. 0d. | 1s. 3d. " | |
| " | £10 0s. | 0d. to | £15 0s. 0d. | 1s. 6d. " | |
| " | £15 0s. | 0d. to | £20 0s. 0d. | 2s. 0d. " | |
| " | £20 0s. | 0d. to | £25 0s. 0d. | 2s. 6d. " | |
| " | £25 0s. | 0d. | . | $\frac{1}{2}$ per cent. on Money. | |

The broker's commission on Debenture Stocks is 10s. per cent.

In addition to these charges there is for shares a registration fee of 2s. 6d. and the contract note stamp of one or two shillings.

No lower commission than £1 may be charged, except for transactions of

less than £20, when the amount of the stockbroker's commission may not be less than 5s., or, for transactions of between £20 and £100, not less than 10s.

The broker's commission on Foreign Government and Corporation Bonds is as follows :

| | | |
|--|-------------------|-----------------------------------|
| Foreign Government and Corporation Bonds. | Price 1 or under | At discretion. |
| Foreign Government and Corporation Bonds. | Price 5 or under | $\frac{3}{4}$ per cent. on Stock. |
| Foreign Government and Corporation Bonds. | Price 10 or under | 1s. " " " |
| Foreign Government and Corporation Bonds. | Price 20 or under | $\frac{1}{2}$ " " " |
| Foreign Railway and other Bonds to bearer. | Price 20 or under | $\frac{1}{2}$ " " " |
| Foreign Government and Corporation Bonds. | Price over 20 | $\frac{1}{2}$ " " " |
| Foreign Railway and other Bonds to bearer. | Price over 20 | $\frac{1}{2}$ " " " |
| Registered Stocks | | $\frac{1}{2}$ " " Money. |

Shares of \$50 or \$100 denomination dealt in in the American Market.

| | | |
|-------|--------------------------|----------------|
| Price | \$5 or under | At discretion. |
| Over | \$5 to \$25 | 6d. per Share. |
| " | \$25 to \$50 | 9d. " |
| " | \$50 to \$100 | 1s. 0d. " |
| " | \$100 to \$150 | 1s. 6d. " |
| " | \$150 to \$200 | 2s. 0d. " |

With 6d. rise for every \$50, or portion thereof, in price.

III

PROVINCIAL EXCHANGES

London is not the only Stock Exchange centre in this country, although in point of membership it is larger than all the others put together, while in the volume and variety of its business it is incomparably greater. Almost every important town in the provinces has its own Stock Exchange. These exchanges consist entirely of brokers. Where it is possible they do business with each other, particularly in local securities. It is just a matter of negotiation. One broker has shares to sell, another has a client who wants to buy. The two get together and the business is done. When, however, securities are wanted for which no seller is available the business has to be sent to London, where the only open market exists.

In such a case the provincial broker sends his order to a London broker and is charged one-half the usual commission. The investor has therefore to pay the local charge, plus half the London commission. It may be that his local broker is content with the other half of the London commission. More often, however, the investor pays his local broker full commission, plus the half of the London commission. The charge is not stated in the contract, as the London commission is usually included in the price at which the securities are bought or sold. The advantage to the provincial investor is that by employing a local broker he is in close touch with an expert who is, or should be, in intimate touch with a London firm. The investor's expenses are somewhat

higher than they would be were he to transact his business by letter direct with a London broker, but this additional expense may be more than counterbalanced by the advice he is able to obtain at close quarters.

Glasgow is the most important of these provincial Stock Exchanges, with about 250 members. Liverpool has about 175 members, Manchester about 100, and Birmingham about 75. Other exchanges are to be found at Aberdeen, Belfast, Bradford, Bristol, Cardiff, Dundee, Edinburgh, Greenock, Halifax, Huddersfield, Leeds, Newcastle, Nottingham, Shetfield, Southport and Swansea. There are also some 200 firms of stockbrokers, who, while belonging to no Exchange, are members of either the Association of Provincial Stock and Share Brokers or the Provincial Brokers' Stock Exchange, with headquarters at Hull; while the Lancashire Sharebrokers' Association, which has its headquarters at Oldham, has some 40 members.

IV

"OUTSIDE" BROKERS

No stockbroker who is a member of the London Stock Exchange, or of any of the Exchanges or Associations enumerated above, is allowed to advertise. This limitation of the publicity activities of stockbrokers has had many critics, but it is believed by the majority to have worked well in assisting in the maintenance of that high standard of probity for which the stockbroking world in this country is famed. One result of this rule, however, is to open up a wide field for the independent stockbroker.

That there is business to be got by advertising is evidenced from the fact that there are some 500 "outside" firms scattered throughout the country who owe allegiance to no organisation whatever. The large majority of them carry on thoroughly legitimate business, although it is always open to doubt whether their clients can obtain as satisfactory and inexpensive a service from them as would be available if the business were done through a member of one of the recognised organisations. It is also undoubtedly true that some of these "outside" firms are not as scrupulous as they might be in their business methods, a fact which has in many cases led to grievous losses by inexperienced investors.

By means of specious circulars got up to look like genuine financial reviews, these firms, known colloquially as "bucket-shop keepers," induce people to enter into gambling transactions, such as dealing in margins or options in which the dice are always loaded against the investor and to his inevitable loss. So far as these "outside" firms are concerned the difficulty facing the investor is in picking out the good from the bad. He is well-advised, therefore, if he decides to deal only with members of a recognised organisation. He can be quite certain that when he receives circulars from a stranger offering to transact business in securities on his behalf the sender of the circular is not such a member.

V

TECHNICAL TERMS

The Stock Exchange uses a number of technical terms which at the first glance tend to confuse the outsider. Once they are understood, however, the difficulty vanishes. We give below the necessary explanations.

Settlement.—Stock Exchange dealings are closed and the necessary payments made every fortnight. The

Stock Exchange year is divided into 24 Accounts, normally of a fortnight each. The Settlement lasts four days: Contango Day, Ticket Day, Intermediate Day and Pay Day.

Contango Day.—Usually the Monday before Account Day. It often happens that a buyer does not wish to pay for securities bought during the Account or a seller does not wish to deliver securities sold. In cases like this he "contangoes" or "carries-over" his bargains. That is to say the buyer pays, or the seller takes, a small rate of interest instead of paying cash or delivering securities. The buyer is then said to "give-or," and the seller to "take-in" the securities.

Ticket Day and Intermediate Day.—The two days immediately preceding the Account Day are known by the above names. Every broker who has bought any securities during the Account passes a ticket to the seller bearing the name and address in which they are to be registered. As stocks or shares may have changed hands many times during the Account these tickets often pass through many hands before they reach the original seller, who is then able to prepare a transfer and deliver it direct to the first issuer of the ticket.

Pay Day.—The last day of each Account, usually a Thursday, is known as Pay Day. On this day all business done during the Account has to be settled for. No money or transfers pass until then.

Making up Prices, Differences.—On each Contango Day a price is fixed in each quoted security at which it is to be "contangoed" or "carried-over." Thus any one carrying over securities pays or receives the difference between this price and the price at which he bought or sold or carried over at the previous Account.

Bull and Bear.—A Bull is one who buys in the hope of selling later at a higher price. A Bear is one who sells in the hope of buying back later

at a lower price. A Bull may "take-up," that is pay for, his purchases or he may prefer to carry over at the end of the Account. A Bear, if he does not repurchase during the Account, has to carry over, as he has no securities to deliver.

Stags.—A Stag is one who applies for stock or shares in a new issue in the hope of selling at a premium when dealings start on the Stock Exchange. In many cases full payment on new issues is not necessary at once and the Stag usually sells "partly paid," *i.e.* before the final instalments are due.

Options.—An option is the right to buy or sell stock or shares at an agreed price on a fixed date in periods up to three months from the time it is taken. A charge depending on the price and prospects of the security is made for this, and before a profit can be made on an option the price must rise or fall sufficiently to cover this. An option to buy is termed a "call option" and to sell a "put option." A double option to "put or call" usually costs twice as much as the single one. Although the option can only be exercised on the fixed date market fluctuations in the security in question can be taken advantage of by intermediate dealings.

Ex-Dividend, Ex-Rights, Ex-All.—When a company pays a dividend or gives any rights to its shareholders, such as that to an allotment of new shares, a date is fixed after which a buyer is not entitled to such dividend or rights. The stock or shares are then said to be ex-dividend or ex-rights and an amount equivalent to the value of the dividend or rights is deducted from the price. Sometimes it happens that dividends and rights are declared at the same time. The shares are then quoted "Ex-dividend and rights" or "Ex-All."

"Cum-Dividend" would mean the opposite, the price *includes* to the purchaser the right to the next dividend or interest falling due.

Price Lists.—Every night after Stock Exchange business is finished Lists are published showing the price of every quoted security, and the prices at which bargains have been done during the day. These are known as the Official and Supplementary Lists.

Treasury Bills.—These are the form in which the Government does its short term borrowing necessary in order to provide for the day to day monetary needs while the revenue is coming in. They are a much-favoured form of investment by the banks, their virtue being that they are liquid in character, maturing generally in three-monthly periods and are therefore practically as good as cash. They are issued weekly in amounts varying with the Government's needs and with the amounts maturing. The issue is always by tender at a rate of discount determined by the market position. The Bills are in units of £5,000 and £10,000, but each tender must be for a total of not less than £50,000 and they must be made through a London banker, Discount House, or Broker. The tenders must be made on forms obtainable at the Chief Cashier's Office, Bank of England.

What "Yield" Means

The yield, or return, on a particular investment represents what *percentage* the investor gets on his outlay. If you hold a hundred pounds' worth of shares which cost you £100 and you receive a dividend of 5 per cent., then the yield, of course, is 5 per cent.

But if these shares of the *nominal* value of £100 cost you only £75 and you still get a 5 per cent. dividend (dividends are always paid on the *nominal* value of shares, not on what you actually pay for them), then the yield is £6 13s. 4d. per cent. On the other hand, if they cost you £120, then the yield is £4 3s. 4d. per cent.

It is a sum in simple proportion. In the first illustration, if you get £5 on £75 invested how much is that

per cent.? Multiply 5 by 100 and divide by 75. In the second illustration, if you get £5 on £120 invested how much is that per cent.? Multiply 5 by 100 and divide by 120.

How Prices are Quoted

Quotations appearing in the daily papers for stocks and shares seem to mystify some people.

Space in newspapers is valuable and abbreviations have to be resorted to. The quotation 17s. 6d.—18s. 6d. actually means that on the particular day the £1 shares of the company named could have been dealt in at a price between 17s. 6d. and 18s. 6d.—i.e. could be sold for 17s. 6d. and bought for 18s. 6d. The shares are therefore at a discount. In the same way ordinary shares of £1 each might be quoted: 30s.—31s. They are at a premium.

It must be realised that business is being transacted in shares of this description almost continuously during the course of the day, and the price varies from time to time according to the supply and demand. The quotations appearing in the morning journal, therefore, are the prices when business closed on the previous day.

For instance, J. Barker & Co.'s shares might be quoted, $3\frac{1}{2}-\frac{3}{4}$, which means that the final quotation on that day for John Barker ordinary £1 shares was £3 2s. 6d. or £3 3s. 9d. per share, according to whether a sale or a purchase was intended.

An Illustration

By way of illustration we shall take a share which usually enjoys much activity on the Stock Exchange. I will imagine a broker has received an order from a client to buy 100 Shell Transport shares; he goes into the market and approaches a dealer and asks, "What are Shells?" He is told "close either side of $\frac{3}{4}$."

This may be Dutch to the average public, but is perfectly clear to brokers and dealers. The pounds figure, if

any, is always understood, unless the market in the shares is exceptionally wild. In this case it is £5. The fraction mentioned indicates a $\frac{3}{4}$ th part of a pound, or 7s. 6d. Therefore the actual price is £5 7s. 6d. But the dealer requires his "turn" or profit. He therefore says "close either side of $\frac{3}{4}$," thus conveying to the broker that he is prepared to deal in Shells at a sixty-fourth part of a £, or $3\frac{3}{4}$ d. either side of £5 7s. 6d. The sixty-fourth is the equivalent of the phrase "close either side." The price made is therefore £5 7s. $2\frac{1}{4}$ d.—£5 7s. $9\frac{3}{4}$ d., or in actual fact the dealer is prepared to take shares from the broker at £5 7s. $2\frac{1}{4}$ d. per share, or sell shares to the broker at £5 7s. $9\frac{3}{4}$ d. per share.

Assuming that this is the basis of dealings late in the day, the price is accepted, and quoted in the newspapers next morning as an indication to the public of the price at which business could have been effected overnight in Shell Transport shares. The middle price in this case is $5\frac{3}{8}$, or in other words £5 7s. 6d. The quotation appearing in the morning would probably read: $5\frac{1}{2}-5\frac{3}{8}$, meaning that between £5 6s. $10\frac{1}{2}$ d. and £5 8s. $1\frac{1}{2}$ d. anyone could deal in the shares.

A Guide to Prices

It must be realised that the quotations appearing in the newspapers are not actual dealing prices, but serve as an efficient guide to the public of the actual state of the market in any particular share. The two quotations given, therefore, mean average buying and selling rates. A holder sells at or near the lower of the two quotations and purchases at or near the higher. The difference in actual dealings is the profit, more commonly called the "turn," demanded by the "jobber," who is not paid commission by the public as in the case of the broker, and therefore makes his living from the difference between the buying and selling prices he quotes for shares.

The broker, on the other hand, is an agent and receives a commission for the work he executes. Different quotations may be made for the same share, and at the same time, in various parts of the market. The broker knows this, and endeavours to deal in that part of the market which is most favourable to his client outside.

Reverting, then, to the John Barker share, we find that the quotation of $3\frac{1}{8}-\frac{1}{8}$ indicates that a holder of the shares could secure not less than £3 2s. 6d. per share for his holding, while a buyer could, if he wished, purchase shares at not more than £3 3s. 9d. per share.

Stocks and Debentures (of £100 nominal) are quoted so much per £100, thus 5% War Loan: 101 $\frac{1}{2}$ -101 $\frac{7}{8}$; Allsopps 4 $\frac{1}{2}$ % Debs. 82-5.

VI

UNDERWRITING NEW ISSUES

When a new issue of capital by an industrial company is being arranged, or a new loan by a Government or Municipality, it is frequently the case that the promoters get the whole issue, or part of it, "underwritten," which means that a syndicate or certain individuals guarantee, for a consideration, the money required by the borrower. Long before the public is asked to subscribe for a new capital issue important spade work has to be undertaken by those making the issue. The time taken over the preliminaries depends on the state of the new issue market and also the merits of the particular creations.

There are in London and the Provinces syndicates and individuals who are prepared to underwrite new capital issues. In the case of Colonial Governments and home corporations the underwriting of new issues is quite a simple affair. The business is usually carried through by one or two groups of London stockbrokers who have a large following and so are

capable of guaranteeing issues of many millions of pounds.

Government Loans

We will take, for instance, borrowing by the New Zealand Government for £6,000,000. The Stock Exchange brokers contract with the Government to supply this money at a price of 97 $\frac{1}{2}$ per cent. The brokers have in their possession a list of names, including foreign banks, large insurance companies and private individuals who are prepared to take this loan from the brokers at the price of 97 $\frac{1}{2}$ per cent. The issue is then made to the public at the price of 98 $\frac{1}{2}$ per cent. If the issue is successful, which means that the whole amount is subscribed for in public subscriptions, the underwriters, or those who guaranteed the money at 97 $\frac{1}{2}$ per cent., are relieved of their responsibility. They have, therefore, underwritten the issue for 1 per cent., which commission they will receive when the results of the public subscription are known.

Supposing, however, that the issue was only a partial success. We will assume that the public subscribed for only 50 per cent. of the issue. In that case the remaining 50 per cent., or the amount not taken up by the public, has to be taken up by the underwriters at the price of 97 $\frac{1}{2}$ per cent. The Government making the issue is certain of the money required whatever the response given to it by public subscribers.

Industrial Flotations

The case of industrial undertakings creating new capital is slightly different. Occasionally new issue prospectuses appear containing the statement that "no part of this issue has been or will be underwritten." Such prospectuses, however, are the exception to the general rule. An industrial company in need of fresh capital will approach the broker to the firm and state its requirements. Occasionally directors and their friends will under-

write a considerable portion of the loan, but the general rule is that the broker to the company contracts to find the money.

The commission for underwriting in the case of industrial flotations is considerably larger than on Government or corporation stocks, in exactly the same way as the interest return to an investor is larger on an industrial than a corporation issue because of the greater risk attached. The broker will contract with the company to endeavour to find the money required for an underwriting commission which may vary at anything between $2\frac{1}{2}$ per cent. and 10 per cent., according to the attractiveness or otherwise of the issue.

In the case of an industrial company, which we will surmise is paying an underwriting commission of 5 per cent., it will also allow the broker an overriding commission which generally amounts to about 2 or $2\frac{1}{2}$ per cent. This overriding commission is for the purpose of covering expenses and other outgoings which the broker will have to face in making the necessary preparations for the issue.

The broker having contracted with the company concerned to supply the money for an underwriting commission of 5 per cent. approaches syndicates, members of the Stock Exchange, and private individuals, who are generally prepared to underwrite new issues, to take a certain proportion of the loan which he has to offer. He may offer them an underwriting commission of 5 per cent., or the same as he secured from the company, or he may offer slightly less than 5 per cent. In the case where he offers the full 5 per cent. his profit will come from the 2 or $2\frac{1}{2}$ per cent. given by the company as overriding commission.

Sub-Underwriting

This second-hand underwriting is called "sub-underwriting." Those who contract to take up sub-underwriting are, in the event of public

subscription for the issue falling short of the amount required, compelled to provide the money required by the company to the extent of their liabilities at a price less their commission of 5 per cent. It will be seen, therefore, that much work has to be undertaken before a new issue appears, and that it is of vast importance to the underwriters that the issue shall be successful before they can reap a profit for the risk they have taken in contracting to supply money to a company through underwriting.

VII

STOCKS AND SHARES

In another chapter the different classes of industrial shares, and the rights attaching to them, have been briefly described. For the convenience of readers, and to make this section comprehensive, the shares of Joint Stock Companies will be further reviewed here, after we have explained the various Government loans, municipal loans and other forms of securities which have not been dealt with. For our present purpose we shall confine ourselves to a description of the nature of the various classes of securities dealt in on Stock Exchanges, leaving their claims as investments to be dealt with separately.

There are two main classes of Stocks and Shares (1) loans of Governments or public bodies, (2) debentures and shares of Joint Stock Companies.

British Government Loans

To those people to whom safety or security of capital invested and certainty of income is the first consideration, the premier place is usually given to Government securities. The rate of interest is usually the lowest, just because the security is the best. The first test that is applied to an investment, from the point of view of security of capital

and certainty of income, is the financial soundness of the debtor.

In this connection the British Government comes first; what the financial resources of the British Empire are we shall not attempt to describe, because that is rather an impossible task, being incapable of exact calculation. In the long run the limits are the limits of the nation's wealth, and the limits of the purses of the citizens of the nation, that is, the limits of taxation. In this connection Mr. Hartley Withers has pithily summarised the position:

"All that we know or think that we know on this point about England is that:—

1. Owing to a certain blind commonsense which is the priceless asset of her public finance, there never, unless the whole character of the nation changes, will come a time when her statesmen will lay on her back a debt that she cannot face, or when they, or the public opinion of the nation, would begin to think about considering the question of doing anything else but

meeting the interest punctually and in full.

2. If the proposal for a levy on capital should ever be revived, we may be sure that the Government, in order to maintain its own credit and borrowing power, will see that holders of Government debt will not be worse, but if anything better, treated than owners of any other kind of property.

3. England has shown and still shows that she possesses stores of economic strength that escape calculation and only appear when an emergency arises."

The various loans also have certain features that have to be considered. They may be irredeemable, or, in other words, a perpetual debt; they may be redeemable, or, in other words, repayable on a definite future date; or they may be redeemable by "drawings" or purchase; by either of these means a certain amount of the loan is definitely cancelled at stated intervals.

The following is a list of the main British Government securities.

BRITISH GOVERNMENT LOANS

| <i>Name of Loan.</i> | <i>Date of Redemption.</i> | <i>Name of Loan.</i> | <i>Date of Redemption.</i> |
|----------------------------|---|--|--|
| War Loan 4½% | Dec. 1, 1925/45. | Guaranteed 2½% Stock | On or after Nov. 1, 1933. |
| do. 5% | Jun. 1, 1929/47. | (created under Irish Land Acts) | |
| do. 4% | Oct. 15, 1929/42. | Guaranteed 3% Stock | On or after Dec. 3, 1939. |
| (Income Tax compounded) | | Exchequer 3% Bonds | Jan. 28, 1930. |
| Funding 4% | May 1, 1960/90. | Treasury 4% Bonds | Apr. 15, 1931/33. |
| Victory 4% Bonds | Annual drawings in Sept., 1920/76. | Treasury 4½% Bonds | Feb. 1, 1934. |
| Conversion Loan 3½% | After Apr. 1, 1961 at option of Government. | Treasury 5½% Bonds | Apr. 1, 1929. |
| Conversion Loan 4½% | Jul. 1, 1940/41. | Treasury 5½% Bonds | May 15, 1930. |
| Local Loans 3% | After Apr. 1, 1912 at option of Government. | Treasury 5% Bonds | 1933/35. |
| Consolidated (Consols) 2½% | After Apr. 5, 1923 at option of Government. | do. 4½% Bonds | Apr. 15, 1932. |
| Annuities 2½% | After Jan. 5, 1905 at option of Government. | Consolidated 4% | Feb. 14 1957 at option of Government. |
| | | Sudan Government } Guaranteed 5½% Bonds } | 1929. By annual drawings. All redeemed 1959. |
| | | India 3½% Stock | On or after Jan. 5, 1931. |
| | | India 5½% Stock | Jan. 15, 1932. |
| | | India 4½% Stock | May 15, 1950/55. |

Dominion Government Securities

Most of the Overseas Dominions are in possession of great potential

resources, many of them also are heavy and continuous borrowers to develop these resources. It does not

come within the province of this chapter to review the various factors to be taken into consideration in estimating the soundness of colonial and foreign finance, or the merits of their various public loans. That would require a treatise to itself. The stability of a country, its natural resources, the extent of its internal and external debts, its financial policy, the stability of its currency, its practice regarding the balancing of

its annual Budget, its trade and the rapidity of its growth, and so on, are all elements that enter into the problem. These are matters for experts, how they appraise the merits of colonial and foreign loans is reflected in the Stock Exchange Price Lists.

The merits of certain securities as investments will be referred to elsewhere; meanwhile, a selection of the principal Dominion and Colonial loans is given below.

DOMINION GOVERNMENT LOANS

| <i>Name.</i> | <i>Redeemable.</i> | <i>Name.</i> | <i>Redeemable.</i> |
|--------------------|--------------------|----------------------|--------------------|
| Australia 6% | Mar. 1, 1931/41. | Newfoundland 3½% | Jul. 1, 1950. |
| do. 5% | Jul. 1, 1945/75. | do. 5% | Jul. 1, 1943. |
| Canada 3½% | Jul. 1, 1930/50. | Queensland 4% | Oct. 1, 1940/50. |
| do. 4% | Oct. 1, 1940/60. | do. 5% | Oct. 1, 1940/60. |
| Natal 3½% | Jun. 1, 1914/39. | South Africa 4% | Mar. 1, 1943/63. |
| do. 4% | Apr. 1, 1937. | do. 5% | Jul. 1, 1945/75. |
| New South Wales 3% | Oct. 1, 1935. | South Australia 4% | Jul. 1, 1940/60. |
| do. 4% | Jul. 1, 1942/62. | do. 5% | Oct. 1, 1932/42. |
| do. 5½% | Jun. 1, 1924/34. | do. 6½% | Aug. 1, 1930/40. |
| do. 6% | Nov. 1, 1930/40. | Victoria 3% | Jan. 1, 1920/49. |
| do. 5% | Dec. 1, 1915/65. | do. 4% | Apr. 1, 1940/60. |
| New Zealand 4% | Feb. 1, 1943/63. | do. 5% | Oct. 1, 1935/45. |
| do. 5% | Jul. 1, 1935/45. | Western Australia 4% | Jan. 1, 1942/62. |
| do. 6% | Aug. 1, 1936/51. | do. 5% | Jun. 1, 1935/45. |
| | | do. 6% | Jul. 1, 1930/40. |

Foreign Government Loans

Much that we have said about Colonial Loans applies to loans of foreign Governments (but here the investing public proceeds with more caution). The stability of the various countries, their financial policy and their resources have to be considered, but, in particular, the stability of their currency is a matter of acute concern, and we might add risks of war, and political upheaval.

The rate of foreign exchange is an important influence affecting foreign securities from the investor's point of view. Obviously, an investment in French, Spanish or Italian Bonds may be greatly influenced by a downward, or upward, movement in the sterling value of the franc, peseta or lire, unless the interest, or the bonds due on maturity, are payable in sterling money. Even then, foreign

bonds may be influenced by an unstable currency, because the loss on an adverse exchange affects the country paying the interest, by making it more difficult to provide for that interest.

For instance, there was a time when the sterling value of Brazilian milreis fell from 1s. 4d. to 5d., which meant that the Brazilian Government had to find three times as much in their own currency in order to meet the service of the loan in England. Sometimes an effort is made by some collateral security to obviate this risk to investors; and not unfrequently there are other liens and pledges given, such as special assignments of Customs duties, or revenue from the railways, to make foreign loans more attractive. Some of the principal foreign Government loans are given below.

FOREIGN GOVERNMENT LOANS

| <i>Country.</i> | <i>Redeemable.</i> |
|--------------------------|-----------------------------|
| Argentina, 1910, 5% | Purchase or drawings. |
| Belgium 3% | Purchase or drawings. |
| Brazil, 1889, 4% | Purchase or Drawings. |
| Brazil Funding, 1914, 5% | Purchase or Drawings. |
| Chilian 5% | Purchase or drawings. |
| do. 6% | do. |
| Chinese, 1913, 5% | Drawings in March. |
| do. 4½% | Drawings in January. |
| Hungarian 7½% | Purchase or drawings. |
| Japanese 5% | At option of Government. |
| do. 6% | No redemption until 1929. |
| Italian 5% | Drawings in November. |
| Norwegian 3% | Purchase or drawings. |
| do. 6% | do. |
| Swedish 3% | Purchase or drawings. |
| do. 3½% | At option of Government. |
| French 5% | *No redemption before 1931. |
| do. 4% | *No redemption before 1943. |

* [The coupons on these French loans are payable abroad].

There are, of course, many other foreign loans, apart from Government loans, which have a market in this country. There are foreign municipal loans, Port and Harbour Trust Securities, Railways, Waterworks, Electric Companies, and so on, some of which, indeed, stand higher in the estimation of the Stock Exchange than do certain Foreign Government Securities.

British Municipal and Corporation Loans

Many of these enjoy almost as high credit as British Government Stocks, and are regarded as gilt-edged securities.

These Municipal loans have one security in common—the pockets of ratepayers, although, of course, every investor in estimating the individual merits of these loans has regard to the policy and control of municipal finance, which is often sounder, and more efficient in one municipality than in another.

Municipalities have to raise money for many purposes, sometimes to finance reproductive undertakings—gas, waterworks, electricity, tramways, and so on; sometimes for

purposes where no revenue can be earned to meet the service of the loan; here the capital is expended for the general benefit of the community; there are public parks and open spaces to provide, public buildings, libraries, galleries, baths and so on. Exorbitant and unwise expenditure, beyond the pockets of the ratepayers, and adventures in ill-considered schemes, may bring the loans of such municipalities into disrepute. Sound municipal finance is dependent on the character and experience of the men who handle it.

An examination of the Stock Exchange Official List reveals that there are something like 250 Corporation and Municipal Loans, in which there are regular dealings. Interest rates on these loans vary from 2½% to 6%. The variation is due to the conditions prevailing at the time the respective loans were issued.

Roughly speaking, there are three classes of Corporation Stocks. There is the Stock that is irredeemable, unless by agreement with the holders. The second class of Stock is that which is redeemable at the option of the borrowing Corporation "in or after" a specified year. The third class is that redeemable at a definite fixed date.

The following is a short selected list of British Corporation and Municipal Loans.

BRITISH CORPORATION LOANS

| <i>Name.</i> | <i>Redeemable.</i> |
|--------------------------------------|-----------------------------|
| London County Consolidated 3% | On or after March 19, 1920. |
| London County Consolidated 3½% | 1929 or after. |
| London County Consolidated 5% | Oct. 31, 1940/60. |
| London County Consolidated 5½% Bonds | Oct. 31, 1930. |
| Birmingham 6% | Jul 1, 1936/46. |
| do. 5½% | Oct. 1, 1941/61. |
| do. 4½% | Oct. 1, 1945/55. |
| do. 5% | Oct. 1, 1946/56. |
| Bristol 6% Loan | Sep. 30, 1940/50. |
| do. 5½% | Feb. 1, 1932/42. |
| Cardiff 6% | Jul. 1, 1936/46. |
| do. 5% | Sep. 1, 1945/65. |

| <i>Name.</i> | <i>Redeemable.</i> |
|-------------------------|------------------------|
| Glasgow 5½% | Jul. 1935/50. |
| do. 5½% | May 15, 1945/55. |
| Liverpool 6% | Oct. 16, 1930/50. |
| do. 5½% | Oct. 1, 1941/61. |
| do. 5% | Aug. 1, 1941/61. |
| do. 2½% | Jan. 1, 1923 or after. |
| Manchester 3% | Aug. 1, 1941 or after. |
| Middlesex County 3½% | Jun. 27, 1927/47. |
| Newcastle-upon-Tyne 3½% | Jul. 1, 1936. |
| Plymouth 4½% | Apr. 1, 1945/55. |
| Portsmouth 3% | Jul. 1, 1913/33. |
| Sheffield 3½% | Jun. 1, 1968. |
| do. 6% | Mar. 19, 1930/40. |
| Wolverhampton 3% | Apr. 25, 1924/54. |
| York 3% | Jan. 1, 1916/41. |

Railway and Industrial Shares

These are multitudinous. In the Stock Exchange Lists, and in the financial columns of the newspapers they are divided into groups: Railways, Shipping, Insurance, Financial Trusts, Electric Lighting and Power, Iron, Coal and Steel, Oils, Mines, Tea and Rubber, and "Industrials" of various groups.

The different classes of debentures and shares, in the order of their priority as regards repayment of capital should a Company be wound up, and priority as regards payment of interest and dividends, are as follows:

Debentures

The nature of debentures has been explained in a previous chapter. Debenture holders are not shareholders in a Company; they are secured creditors of the Company to whom they have loaned money. The payment of interest is not dependent on profits; it is payable out of the funds of the Company. If debenture holders' interest is not paid, the debenture holders may take steps to realise the assets pledged to them as security.

A Debenture is a document given under seal of a Company in acknowledgment of a loan or debt, and it usually secures to the holder some, or all, of the assets of the Company. The various kinds of debentures have been explained in a previous chapter. We need only repeat here that a

First Mortgage Debenture has a prior claim on the property before the claims of "Second" Debentures, and the latter have like priority over "Third" Debentures.

Debentures may be redeemable, or they may be issued as irredeemable. They offer no *absolute* security, but in respect of security they come in front of share capital. The assets on which particular debentures may be secured can dwindle to small proportions, or vanish altogether, if the Company issuing them comes to grief. The main thing for an investor to consider is the nature of the assets on which they are secured. All kinds of property can, of course, be used for this purpose; Freehold land and buildings and other *permanent* assets are the sort of property on which Debentures should be secured.

Preference Shares

There are different classes of Preference Shares in Joint Stock Companies. Just as a Preference Share has a prior claim over an Ordinary Share, both as regards dividends and capital, so have First Preference Shares a prior claim over Second Preference Shares, and, likewise, Second Preference Shares over Third Preference Shares. The Preference Shareholders are entitled to a certain fixed dividend out of profits before the Ordinary Shares can participate at all. If they are *cumulative* Preference Shares, then, in the event of one year's profit being insufficient to meet the dividend, the arrears of dividends are payable out of succeeding years' profits.

Ordinary Shares

These carry no special rights or privileges. They participate in the profits after the claims of the Preference Shares, and other prior claims, have been met.

Deferred Shares

These are not so common as Preference and Ordinary Shares. They

exist in some railway stocks and some commercial companies. They usually have their origin in some reconstruction of capital, or a new flotation, in which the promoters are prepared to take the risk of profits exceeding an amount necessary to pay the prior claims of Preference Shares and Ordinary Shares. In this case a limit is placed on the amount of dividends to which the Ordinary Shareholders will be entitled, the Deferred Shareholders participating thereafter. In that case the Ordinary Shares may be called Preferred Ordinary Shares, because they rank in preference to the deferred shares.

Difference Between Stocks and Shares

When the Capital of a Company is divided into Shares, the Shares are usually of small denomination, such as £1, £5 or £10 Shares. You buy so many shares. In the case of Stock, the Capital is divided into multiples of £100. You buy or sell Stock just as you do Shares; Shares are quoted at so much per Share; Stocks at so much per £100. You buy so much nominal stock, just as you buy so many Shares. Shares are transferable only in their entirety. Stock may be transferable in stated multiples or in any fixed amounts.

It should be mentioned that Shares are not necessarily "fully paid up;" for example, only 10s. a share may have been "called up," or paid on a £1 share, the balance remaining to be called up at a future time, as necessary. Stock, on the other hand, is, of course, fully paid up in the first instance.

Registered and Inscribed Stock

If you invest in the registered Stock of some municipality, it simply means, that, instead of the usual share or stock certificate, you receive a certificate from the City Treasurer or other official acknowledging that so much stock is held by you and is registered in the books of the municipality. This certificate has to be given up when you sell any, or all, of the stock to another person.

Registered stock can be transferred by one person to another by means of a transfer document, the owner's name being registered in the Company's books. "Inscribed" Stock cannot be transferred in that way; the names of proprietors of inscribed stock are registered in a book usually kept at a bank. The buyer and seller are required to attend, either personally or by attorney, to sign the book, when any transfer has to be effected.

Bonds

These are similar in nature to a Debenture, which is a document acknowledging the proprietor's right to the amount of loan purchased and embodies the conditions attached to the loan. A "bearer" bond can be transferred from one person to another, without any formal transfer being completed as is necessary with Share transactions. Bearer bonds are not infrequently issued by foreign Governments, municipalities and companies. All such "bearer" stocks should be deposited for safe custody with a bank; if they have interest "coupons" attached, the bank will undertake their collection as they fall due. Sterling Bonds are Bonds on which the interest is payable in pounds sterling.

CHAPTER IX

NEW METHODS IN INDUSTRY

THE COTTON TRADE

BY

SIR CHARLES W. MACARA, BART.,

Ex-President of the International Cotton Federation and of the English Federation of Master Cotton Spinners' Associations

Post-War Problems—The Lancashire Cotton Trade—Essentials for its Success—A Comparison of Spindles—A Comparison of Population—The Question of Price—A Look Ahead—Some Puzzles Explained—Cotton Growing in the Empire.

To speak of business in its modern aspect, so far as cotton is concerned, is to speak of it as applying more particularly to the post-war period and to the greatly altered conditions with which we have now to deal. Prior to August, 1914, all industry went along in a comparatively easy-going way, but the War not only shook up nations but played havoc with trade and commerce, and we are still very far from getting into working order what was formerly a finely-adjusted and fairly easy-running machine.

The war period having diverted, and in some cases stopped up, the ordinary channels of business, it became necessary to find some heroic means of restoring the world's trade—an extremely difficult proposition when costs of production had greatly increased and the power of the consumer to purchase had at the same time fallen enormously. As reductions in wages were generally out of the question, seeing that the cost of living had been so greatly enhanced, many trades found a solution of their financial and other problems in pooling their interests and thus effecting

considerable savings in their production costs, while others sought salvation in co-operative efforts in which employer and employed worked their businesses on a basis of mutual help and trustfulness. Selfish individualism had to give way to a scientific organisation of industry, the main feature of which was the control of production, and in many cases the control of sales also.

A timely publication of the findings of a Government inquiry into the extension of trade organisations and combinations did a great deal to allay public mistrust of these new methods, and to convince the country that there was no reason to anticipate the evils of the trusts and combines which have caused such grave scandal on the other side of the Atlantic. Indeed, the Government committee found that, as far as English organised co-operative efforts were concerned, the steps taken to eliminate diffuse and wasteful methods of manufacture and administration more often tended to the production of cheaper and better articles than to raise prices against the consumer, and that collective ways of working were, taken

generally, beneficial to both the public and the industries concerned.

The Lancashire Cotton Trade

The Lancashire cotton trade, I have always contended, is peculiarly fitted to be worked under some method of co-operation or control, and for the one reason particularly that it is an international industry, subject to all kinds of vicissitudes over which it has no control, and liable at any time to suffer if its power of supply is not kept closely in line with the demands of the far-off countries upon which it so largely depends for its prosperity.

We have a very illuminating instance of what I mean in regard to our trade with China, Lancashire's second-best market for cotton goods. The revolutions and civil wars that have distracted China for many years have had the effect of making it impossible for goods to reach the interior of that vast country, and consequently our cotton cloth trade, aggregating as much as 700,000,000 yards in a year in normal times, fell to considerably less than half that amount. Yet, through lack of information and guidance, Lancashire mills engaged in producing for the China trade went on spinning and weaving and stocking goods for that market until they brought their businesses to a well-nigh hopeless position.

My contention is that, if the trade had been under a system of control, this would not have happened, for a well-informed bureau of information would have pointed out the dangers such firms were running in piling up goods that could never find a market at anything like the cost at which they were produced.

But Lancashire spinners and manufacturers, even with such an example as this before them, refuse still to take heed, and go on their way following the rule-of-thumb methods of their fathers, their capital melting away through lack of organisation, strong in the faith that better times

are bound to come, if for no other reason than that there is not another country but England that has the mechanical means and the personal skill to provide the goods wanted by the cotton-wearing nations of the world.

I am, possibly, as strong as the most pronounced individualist in the belief that England's pre-eminence in the matter of equipment and skill is sure to tell in the long run, but I see no reason why the trade should not safeguard itself in long intervals of waiting until the normal world demand for cotton goods springs up, and fortify itself with all the statistical and other information it is possible to secure to obviate such a drain on capital as has taken place during the last half-dozen years. Independence in working is indeed purchased dearly when it costs hundreds of millions of pounds through the selling of goods at a price a long way below the cost of production, and brings misery and even ruin to many thousands of small shareholders.

The principles of control will yet triumph in some form, I feel sure, and once the scheme is properly understood and adopted, the cotton trade of England will be more prosperous and more firmly established than ever. The future of the industry lies with a generation which has no prejudices to cast off, and one which is equipped for business on strictly scientific lines. At present those who are in positions of authority both in its mills and in its organisations are recruited, for the most part, from the spindle and the loom, which often results in views and outlook being circumscribed.

Technical efficiency is, of course, absolutely essential in all trades, but vision and a world-wide outlook are even more necessary in those leaders who set out to guide the destinies of an industry which is dependent upon foreign sources for every pound of its raw material, and is indebted to far-

off countries for the purchase of more than three-quarters of its finished products.

It is, therefore, all to the good that the cotton trade is beginning to attract young men from grammar school and college, men who are trained to take the wider view, who appreciate the importance of scientific costing systems, and who are not contemptuous of the knowledge that lies in comprehensive and well-collated statistics. Knowledge is power in cotton as in everything else, and in future we shall be obliged to avail ourselves of every source of information possible. For a hundred and fifty years past, Britain's textile successes have been due to the rare good fortune we have had in possessing almost a monopoly of inventive genius: in the future we shall have to rely more and more upon generalship and organisation.

In saying this, one is not striking any note of alarm, for I have stated repeatedly that nothing can seriously injure the English cotton trade but our own want of enterprise and application. We have enjoyed so many advantages in the initial stages of the industry, that it is well-nigh impossible for any country to take the leadership from us. We have now, and always have had since the industry of cotton spinning and manufacturing began, three outstanding things in our favour—the abundance of our mechanical equipment, the superior skill of our operatives, and a climate unapproachable for the purposes of textile production. All these are with us yet, and I see no possibility of England being ousted from her pride of place as chief maker of textile fabrics if we but take a wise view of our responsibilities to the world and cease to weaken ourselves in senseless domestic competition.

Comparative Facts and Figures

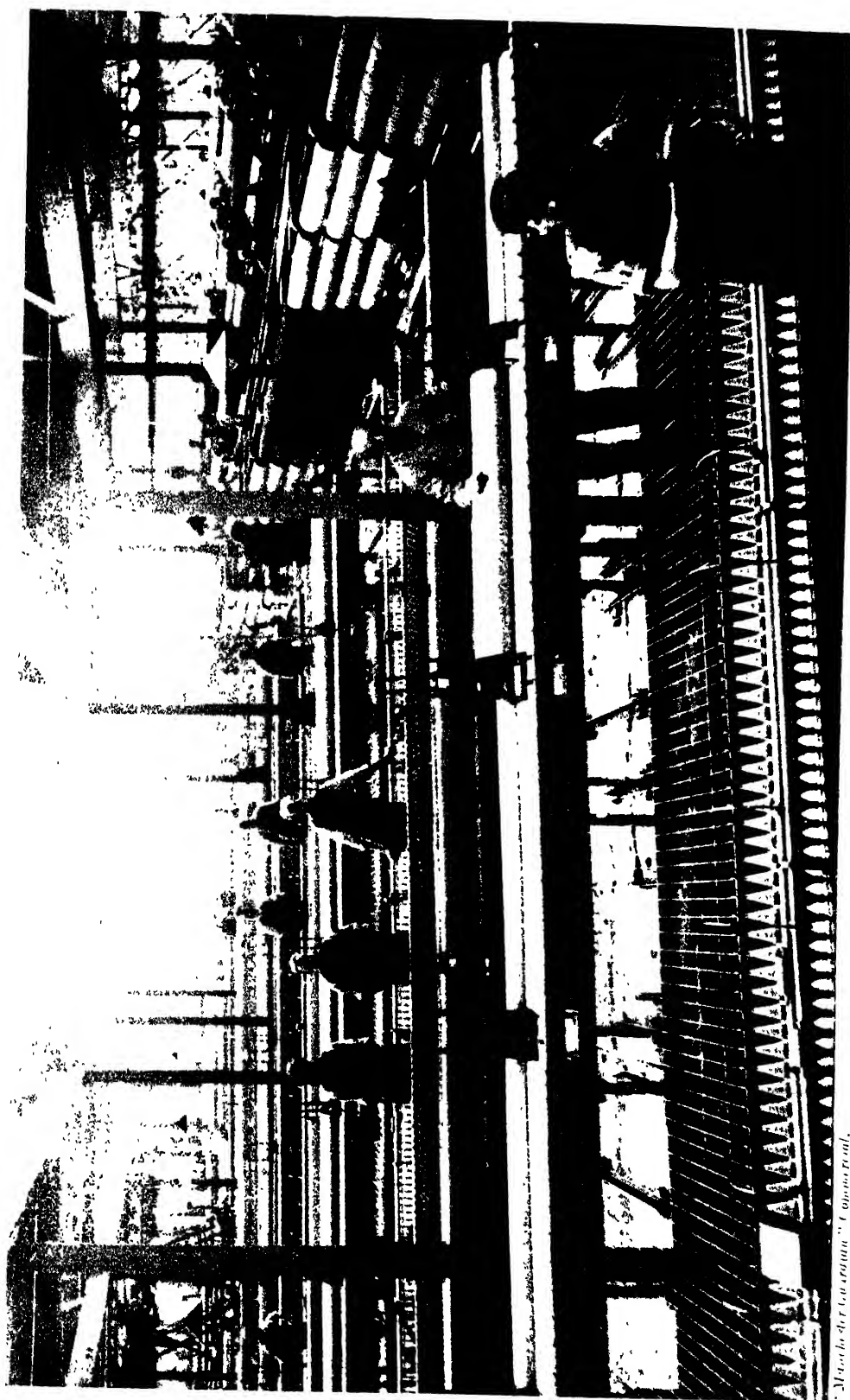
From time to time we see in newspapers paragraphs which suggest that

England is falling behind in the race, and that other countries, that have taken up the businesses of spinning and weaving cotton, are going ahead at a far more rapid rate than we are. They quote statistics to "prove" that there has been a greater percentage increase of machinery in Japan, in India, and in China than in England; that the cotton goods exports of Italy or some other country, are going up by leaps and bounds; and that, more significant than all, certain foreign countries are increasing their takings of raw materials in a much greater ratio than England. These are the specious arguments of the half-informed, and they vanish into thin air when once cold fact is brought to bear upon them.

Take first of all that question of machinery increase, and it will be seen how fallacious it is to rely on percentage figures. It would, perhaps, be of interest to give the total estimated number of spinning spindles there are in the world in order that we may judge of the capacity of foreign countries to interfere seriously with British trade. According to the International Cotton Federation figures, made up to July 31st, 1926, the latest to hand, the spinning spindleage of Europe is as follows:—

| | |
|-----------------|--------------------|
| Great Britain | 57,286,000 |
| Germany | 10,480,000 |
| France | 9,511,000 |
| Russia | 7,246,000 |
| Italy | 4,833,000 |
| Czecho-Slovakia | 3,568,000 |
| Belgium | 1,854,000 |
| Spain | 1,817,000 |
| Switzerland | 1,529,000 |
| Poland | 1,375,000 |
| Austria | 1,032,000 |
| Holland | 921,000 |
| Sweden | 571,000 |
| Portugal | 503,000 |
| Finland | 255,000 |
| Denmark | 94,000 |
| Norway | 53,000 |
| Total | 102,928,000 |

In Asia the spindleage is as follows:—



INTERIOR OF A LANCASHIRE COTTON MILL.

In this enormous shed the work of spinning the cotton is carried on by the most modern machinery and under the most up-to-date conditions.

Musée de l'Industrie et du Commerce.

| | |
|-----------------|------------|
| India | 8,510,000 |
| Japan | 5,573,000 |
| China | 3,436,000 |
| Total | 17,519,000 |

The returns for the American Continent, North and South, are :—

| | |
|------------------|------------|
| U.S.A. | 37,585,000 |
| Canada | 1,167,000 |
| Mexico | 830,000 |
| Brazil | 2,493,000 |
| Total | 42,075,000 |

Thus we have a grand total (with "sundries" amounting to 1,201,000) of 163,723,000, but it should be noted that a number of these spindles, particularly in France, which were destroyed or damaged during the War, have not been replaced or put into running order, while out of Russia's 7,246,000 spindles about 5½ millions only are capable of being worked.

On the other hand, it should certainly be pointed out that no doubling or waste spindles are included in the Great Britain returns, and the former number no fewer than 3,546,900. Also, that not all the mills in England send in returns to the International Federation. Consequently, the English figures can be put down at well over 60,000,000.

But an analysis of the figures and the population of each country shows an even greater disparity than the actual spindleage. For example, the British Isles require for their home trade of 50 million people the production of 12,000,000 spindles out of the 60,000,000. The remaining four-fifths of Britain's production is dependent upon overseas markets. The United States of America come next to us as regards amount of machinery. They have 37,585,000 spindles to supply the wants of a population of 110,000,000 and only a small percentage of their cotton manufacture is available for export. This amount, estimated at about 5 per cent. of the whole, is in coarse goods, mostly for the China market, and does not come into com-

petition with the better-class goods that Lancashire makes. France and Germany, when in full working order, have together under 20,000,000 spindles to supply the wants of 100,000,000 people.

The Far Eastern Countries

But the most striking fact of all is that India, China and Japan, with a combined population of 800,000,000, have only about 17½ million spindles (even when Japan is again fully equipped after the big earthquake). On the English ratio of 12,000,000 spindles for 50,000,000 people, these three big cotton-consuming countries would require to have 192,000,000 spindles to meet their own domestic wants, leaving out altogether any question of having a surplus to export. As it has taken these Far Eastern countries close upon a century to get together their 17½ million spindles, how long is it likely to be before they could be in a position to supply their home wants?

One knows well that machinery can be produced faster now than formerly, but, even so, the equipment of a single average-size English mill of 100,000 spindles to-day is a long and costly process. The Bombay Millowners' Association, in a recent report, stated that the increase in Indian spindles during the past decade was equivalent only to that of eight ordinary-sized Oldham mills.

Of these Far Eastern countries, Japan has comparatively made the greatest strides in adding to her equipment, but only possesses as many spindles as can be found in a single medium-sized Lancashire town. Such progress as Japan has made is due principally to the fact that the Japanese Government has decreed that night work shall be abolished in the mills, and the haste to add to the machinery is due to the desire to maintain production. But even assuming that Japan's 5½ million spindles are kept working night and

day, they have a population to supply in their own country, irrespective of their dependencies, of something like 55,000,000 people. Consequently, the fact remains that if countries like Japan do export a certain amount of their cotton production—and it is of a quality which hardly enters into competition with English goods—their machinery is inadequate for the needs of their own populations, and they are bound to come to England to get their wants supplied.

Thus, I repeat my contention that the foreigner cannot make much headway against Britain for a long time to come, let him do what he may. It has to be remembered that it takes a long time to get new machinery made, and moreover there cannot be any great extensions with prices of textile machinery at their present level, and with Lancashire ten years behind with her repairs and renewals. In pre-war times, textile machinery cost 100 per cent. more in America, India, China, and Japan than in England, and 50 to 60 per cent. more on the continent of Europe. The same ratio of cost obtains to-day.

I have contended all along that we have little to fear from any country in the matter of spinning, manufacturing, and finishing cotton goods, and the reason that "foreign competition" has come to be mentioned in any shape or form is due to the fact that conditions since the war have been exceptionally favourable to other cotton manufacturing countries owing to the heavy financial handicap that has been imposed on all engaged in industry in England.

I notice that in many newspaper articles dealing with the competition the English cotton industry has to meet, much is said about the severe extra taxation imposed upon us since the War. I quite agree that the effect of this increased burden is very serious, but I notice also that hardly any mention is made of the much higher cost our foreign competitors have to

pay in the building and equipping of their mills compared with the cost in England. In the United States of America, India, China and Japan this increased cost is 100 per cent., whilst on the European continent it is 50 to 60 per cent. Take as an example an eighty thousand mule spindle mill at £2 per spindle. Interest and depreciation here would amount to, say, £16,000 per annum. In the United States of America, India, China and Japan it would be £32,000 per annum. Even with the increased taxation in England, it is absurd to assert that the taxation imposed on us is giving our foreign competitors a chance of throwing us out of the race.

The Question of Price

Owing to the sharp drop in the price of American cotton, following upon the superabundant crops in the Southern States in 1925 and 1926, conditions are beginning to favour the English spinner again. But thanks for this are due solely to the fall in the price of the raw material, which, however, when "points on" are added, is still above the pre-war figure. For example, although "Mid-ling" American Cotton is, at the time of writing, quoted at about 7d. per pound, "points on" ranging from 100 to 200 are demanded for cotton used in the spinning of medium counts of yarn, making the actual price as high as 8d. to 9d. per pound. Much misunderstanding thus arises in the minds of the general public in regard to official cotton quotations.

The fortunate circumstance for Lancashire is that American cotton, at the time of writing, is actually cheaper than the second-grade cotton grown in India chiefly, upon which countries like Japan and Italy have relied during the past few years to under-cut English goods in Far Eastern markets. Japan, especially, it may be pointed out, has always relied on a cheaper grade of cotton than Lancashire uses to maintain

some kind of footing for her export trade, and the only reason that she has been able to some extent to increase her business in India and elsewhere of late years is that during and since the War the American cotton used in Lancashire mills has been too expensive for the Indian trade.

The permanent removal of this handicap of dear cotton would mean that England would, despite her domestic burdens, quickly regain such trade as she may have lost, and countries like Japan will fall back rapidly to the level they have occupied in the past; which is another way of saying that the circumstances with which Lancashire has been faced during the past ten years are altogether abnormal, and that as the world settles down England will assume her old position again.

A Look Ahead

During the War England was too busy with affairs near home to guard all her trade outlets abroad, and naturally there was leeway to make up when once she could devote her full attention to commercial matters again. But there is certainly no reason to believe that Lancashire goods are, in any measure, displaced permanently in India or any other country by the coarser and seemingly cheaper goods which have been bought from some of our so-called "rivals" during the past few years, and seeing that these countries, and India particularly, are now, owing to bountiful harvests, better able to buy the finer qualities of cloth that Lancashire makes, we may look forward with confidence to the future.

Indeed one cannot see how Lancashire will be able to supply the world's wants when full buying power returns. While the populations of the world have been steadily increasing—and very rapidly increasing in the tropical and sub-tropical cotton-wearing countries—the machinery in the industry has not kept pace, and

this without making allowance for the fact that the working hours in English mills have been reduced from 55½ to 48 per week (working hours have also been reduced in many other countries). This lopping off of what is practically one full working day a week, means that we require in England scores of new mills to bring us up to our former complement of production. Moreover, very little has been done in the way of renewals and repairs to machinery during the depression, and spinners are thus bound to be hampered in their output for some time to come.

Under the circumstances the marvel is that Lancashire has been for so long comparatively idle, for it seemed but feasible to expect that with a larger number of backs to clothe and decreased means of clothing them, the slump could not have continued for half a dozen years. This unprecedented slackness in the cotton trade is a measure of the enormous harm done to trade and commerce by the most devastating war in history.

Some Puzzles Explained

There are few industries which lend themselves to misunderstanding so much, perhaps, as the cotton industry, owing to its diverse ramifications and its infinite variety. One great puzzle to outsiders relates to the weight of cotton used between one country and another, and it is often asked how it comes about that such places as Japan and India should show a relatively higher percentage of cotton used than an old-established producer of goods such as England.

This is explainable when it is understood that England's supremacy lies in the fact that she produces the finest quality goods, and consequently the lightest in weight, of any country in the world. Coarse goods are always the bulkiest and the heaviest, and, therefore, the number of bales of cotton used are no guide whatever to the progress of one country as

against another. England's trade, as a matter of fact, tends to the use of less and less weight of cotton, for the simple reason that she puts less raw material into her products, but more skill and workmanship, which pays her so much better.

It is a curious fact that, during the long depression we have passed through, it is the very highest production of England's spindles that has been called for, rather than the medium quality goods, which accounts for the fact that those engaged in what is known as the "Bolton trade," that is to say, the fine Egyptian cotton spinners, have done so much better than those who spin American cotton in the Oldham district. But this, of course, has been due to the fact that the wearers of fine material are able to pay any price within reason for the cloth they require, while the teeming millions of poor people in the Far East, in South America, and in Africa have not been able to afford even the lower-priced goods that the Oldham trade supplies.

As is well known, the unfortunate position in which the spinners of American cotton have found themselves, owing to the largely reduced demand from the great cotton-wearing countries of the world, has been brought about by the exorbitant price at which raw cotton has stood during the past twelve years—due to mismanagement and a refusal to co-operate in husbanding the huge crop which came to hand at the outbreak of the War. One result was that the price of cotton fell below the cost of production, involving ruin to many thousands of planters, and that subsequently it rose to a height far beyond the buying capacity of the people in the Far East.

Empire Grown Cotton

The plain moral of the situation is that we must have more cotton

grown on Empire territory, in order that we can be rendered less dependent upon the Southern States of America. Especially must we be up and doing when we see that every year the United States consume more and more of the cotton they raise for their own mills and for their great and ever-growing motor-tyre industry.

It is gratifying to see that various parts of the British Empire, as well as countries like Brazil and Peru, are taking up the business of cotton growing more seriously, and we have good reason to hope that in a few years' time we shall be able to rely upon a full and adequate supply of raw material at prices at which the bulk of England's customers can afford to buy in normal quantity. India and Egypt are particularly promising. It is calculated that in a year or two we shall be able to rely upon crops of 8,000,000 bales in India, much of which will be of American quality, while there are enormous possibilities of development in the Anglo-Egyptian Soudan.

Experience and personal observation in all parts of the world have convinced me that England has no reason to fear the future of the greatest of her exporting industries on the manufacturing side, if only those who are engaged in the cotton trade will have the good sense not to cripple it by holding on too long to obsolete methods of producing and marketing their goods. There is no place in modern industry for jealousies and prejudices. Cotton production to-day calls for the best brains procurable, and it calls also for up-to-date organisations which possess the powers necessary to control the industry, especially in times of emergency. Voluntary organisations which have no power to enforce decisions upon members are worse than useless.

CHAPTER X

ORGANISATION

Trade Organisations and Federations—The Collection and Pooling of Information—Research Work—Organising a Business—Organisation of Finance—Monthly Statistical Returns—Organisation of Accounts—Analysis Figures—Self-Balancing Ledgers—The Art of Using Figures—The Significance of Percentages—Interim Trading and Other Accounts—Office Organisation—Mechanical Devices—Calculating and Other Machines.

I

TRADE ORGANISATIONS

AMONGST the things that matter in business, Organisation is one of the chief, not only from the manufacturing and selling points of view, but in the general conduct of business. We shall make no attempt to define the word Organisation, but we shall try to show how it manifests itself in manufacturing industries and commercial business.

The F.B.I.

In these days organisation is not confined within the boundaries of individual businesses. Most of the important industries have abundantly recognised its collective importance and formed associations of their own for the mutual benefit of their members. They are headed by the Federation of British Industries, which comprises amongst its members practically every important industry in the country. As explained in the General Introduction to this book, this Federation is a widely representative and influential industrial body, whose object is the promotion of British Trade at home and overseas.

This Federation itself is highly organised and its activities extend to practically everything, from production to selling, and even beyond that for it includes research work. Its

Intelligence Department is at the service of its members and all kinds of enquiries are answered from the collected store of information at the disposal of the Federation.

For the Promotion of Overseas Trade the Federation maintains an elaborate service of part-time correspondents, acting in conjunction with whole-time commissioners in all the important markets of the world. Its services include the supply of market information, answering specific trade enquiries, and supplying information about the trend of demand. The Federation will report on sources of raw materials for different industries, and seek to expedite delivery. It also assists in making travelling arrangements and providing introductions for members visiting their markets overseas; it helps to provide shipping facilities and other information; it supplies information about credits and overseas banks, and keeps members in touch with foreign commercial legislation.

Other Trade Organisations

All this is organisation of a very practical kind for a definite purpose. Outside this organisation individual industries have their own associations which collect and co-ordinate information bearing on their particular business activities and operations. Instead of a number of individual firms

working in isolation and, therefore, severely handicapped, they combine for a common purpose. Some of these trade associations are mentioned in the General Introduction; they include the Cotton Research Association, which has investigated the subject of increased cultivation and the scientific properties of cotton; there are also the Irish Linen Society, The Scottish Woollen Trade Mark Association and the Federation of Master Printers, which has evolved a scientific system of cost-finding based on the actual ascertained costs of the different processes.

The British Electrical and Allied Manufacturers' Association originated as several other associations did: "confronted by powerful competitors, both abroad and at home, and weakened through the lack of a common policy and a united front, the electrical industry in the years before the War was one of the most depressed in Britain. . . . Under these circumstances it was felt that only voluntary co-operation could achieve that unity of policy and development which was necessary to meet foreign competition, and rescue the electrical and allied industries from extinction."

An organisation was, therefore, formed to serve the mutual interests of the individual firms in that industry, the objects being "the discussion and treatment of all questions affecting the electrical and allied industries; a medium of communication between the manufacturers, the Government, municipal or other public bodies; to provide an organ for promoting trade in foreign and Colonial markets, and to provide an economic and intelligent service for the industry." In addition to this, "research is carried out by members in connection with their own products and necessities, and it is estimated that, apart from the support given to the Research Association, £250,000 is spent annually on research. It is claimed that by embarking on a

progressive research policy British electrical products have been brought to a level of perfection unequalled in the world." Such are the lines on which these trade associations work.

Other associations include the National Federation of Iron and Steel Manufacturers. The various activities of this Federation are represented by a General Purposes Committee which in essence "is a forum in which the problems of the industry may be fully discussed"; it "deals with all matters of a general character to which the attention of the Federation is directed"; the Statistical Committee is responsible for statistical and economic information; the Transport Committee deals with "all questions relating to the transportation of the raw materials, semi-and-finished products and by-products of the industry which plays such an important part in the cost of manufacture."

When it is fully realised that in the process of making a ton of finished steel, seven tons of materials need to be carried by rail and that approximately fifty per cent. of the steel production is exported, the importance to the industry of railway rates, dock charges and shipping freights will be apparent.

The services of the Federation are at the disposal of individual members on questions relating to transport rates and traffic problems of every kind. The Fuel Committee endeavours to co-ordinate and disseminate information concerning full economy and a close liaison exists between the committee and the Fuel Research Board, the Imperial College of Science, and other bodies of a like kind.

The British Engineers' Association is another of these bodies which serve such useful purposes to individual members. It collects and collates all kind of information, and in particular does all in its power to induce the flow of engineering orders to the United Kingdom, and facilitate the

transaction of overseas business. Its enquiry bureau is a typical example of organisation for the general welfare of a particular industry. "The bureau exists for the benefit of British engineering firms belonging to the Association, and of enquirers and buyers overseas requiring information in regard to, or desiring to place orders for plant, machinery, tools, engineering materials, etc." The members are invited to avail themselves of the information in the possession of the Association in regard to foreign markets and conditions.

"Buyers overseas are invited to transmit their enquiries to us for analysis, sub-division, if necessary, and distribution to those of our members most likely to be interested in and able to deal with them. Foreign enquirers may write to the bureau in the French, Italian, Spanish, Portuguese, German, Swedish, Norwegian or Russian language."

There is also the Federation of Master Cotton Spinners, and so on with other manufacturing industries.

Statistical Information

One of the important factors in modern business is statistical information. In illustration of this we quote from the official organ of one of these trade organisations: "It is a regrettable fact that this country is lagging far behind some of its chief competitors, more especially the United States, in the ascertainment and publication of statistics of production. This is a serious handicap on our manufacturers in these days when reliable up-to-date information is required for the scientific control now essential to the financial success of their operations. . . . These considerations have moved the Board of Trade to make an attempt to organise the regular collection of certain statistics, from which they can derive monthly production index figures showing the state of activity of the different staple industries of the country."

From the same source we quote the following interesting passages:

"One of the cardinal features of industrial development during the last five and twenty years has been the growth of the use of industrial statistics. Largely under the tuition of the Americans, manufacturers have learned the necessity of cost accounts, which, especially in the engineering industry, now frequently reach a high degree of elaboration, and, in addition to this detail use of current statistics, every large establishment finds it necessary to have presented to the management, at monthly or even weekly intervals, a statement of the position in its productive and distributive departments. The utility of business statistics to the individual is to-day a commonplace, but it is otherwise with statistics regarding individual industries, each taken as a unit, or regarding the industry of the country as a whole. . . .

"The advantages accruing from a Census of Production are many. The individual manufacturer, especially if he has kept a copy of his 'Return' to the Census of Production Office, will be able to compare his position with that of his industry as a whole, and to estimate his efficiency by comparing the net output (*i.e.* value of output less cost of materials and work given out) per head of his work-people with that of all the work-people in the industry. He will also be able to compare the position of his industry with what it was at previous censuses, and with the contemporaneous position of other industries. In these ways he may obtain food for thought, if not always for satisfaction.

"Other elements of instruction he may derive from comparisons of the position of his industry in the United Kingdom with the position of the industry in other countries which take Censuses of Production. Examining the reports of the United States Census, for example, he will find evidence of a greater output per head,

of a greater net output per head, of a greater power equipment per person employed, and of a rapidly growing use of electricity in production. . . .

"The need of a frequent Census of Production is beyond question. We require to survey the waters of trade with precision and to keep our charts accurate, but there is equal need for the continuous taking of soundings, for navigation cannot wait on surveys. Industrial problems continually arise demanding immediate treatment and, while 'the latest figures' may not provide solutions, it is certain that treatment without information must be empirical and dangerous."

Pooling Information

Referring to the organisation of statistical information in the United States, the competent British authority from whom we have been quoting says, "The first general conclusion to be drawn from a perusal of these Surveys of Current Business is that the American business man is no believer in the advantages of secrecy, but that he appears to hold that he has more to gain from participating in the information possessed by his fellows than to lose by sharing his information with them. Consequently, he readily communicates to his trade association particulars of his production, stocks, unfilled orders, idle capacity, etc., in order that he may learn from the bulked particulars of his whole trade, and the comparison of these particulars with those of earlier months, what the trend of business is.

"He does not seem to be scared lest his competitors abroad or his customers at home should use the statistics to his detriment, and he makes no complaint when they are published by his trade paper, *The Commercial and Financial Chronicle*, The Federal Reserve Board, or the Department of Commerce. The success of American industry during the past few years certainly suggests that it does no harm to industry, to finance, or to Government adminis-

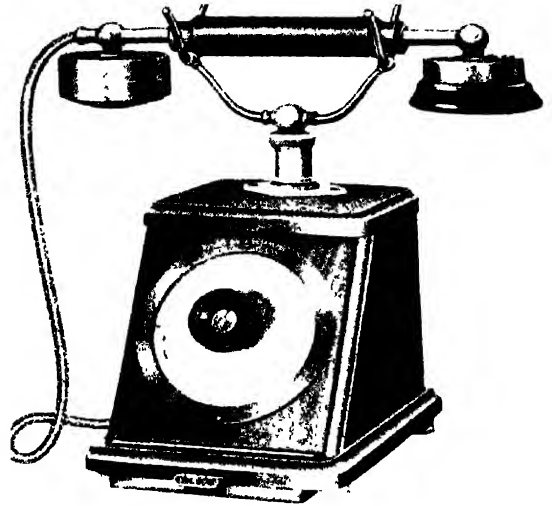
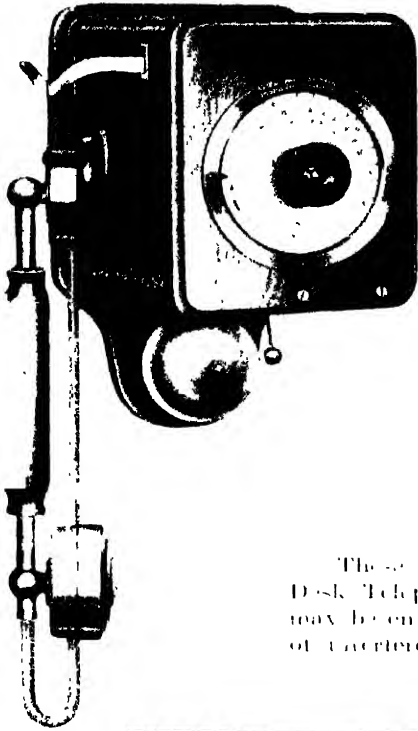
tration to have the fullest publicity given to the facts of business development. It appears to be necessary to enforce this lesson on our manufacturers and on their associations, but on the former rather than on the latter, since the more active members of a trade who guide an association are usually wide enough awake to the advantages of trade statistics."

The wholesale trades and departmental stores also combine for the purposes of organisation in collecting and collating information and invaluable statistics for the use of members generally. These and similar associations are engaged in constant research work. More and more, in the complexity of modern industry and commerce, the need has become evident for such a specialised type of service as business research offers, which can gather and assimilate relevant facts from many different sources, supply comprehensive data, and interpret them in their relation to the problems of each firm.

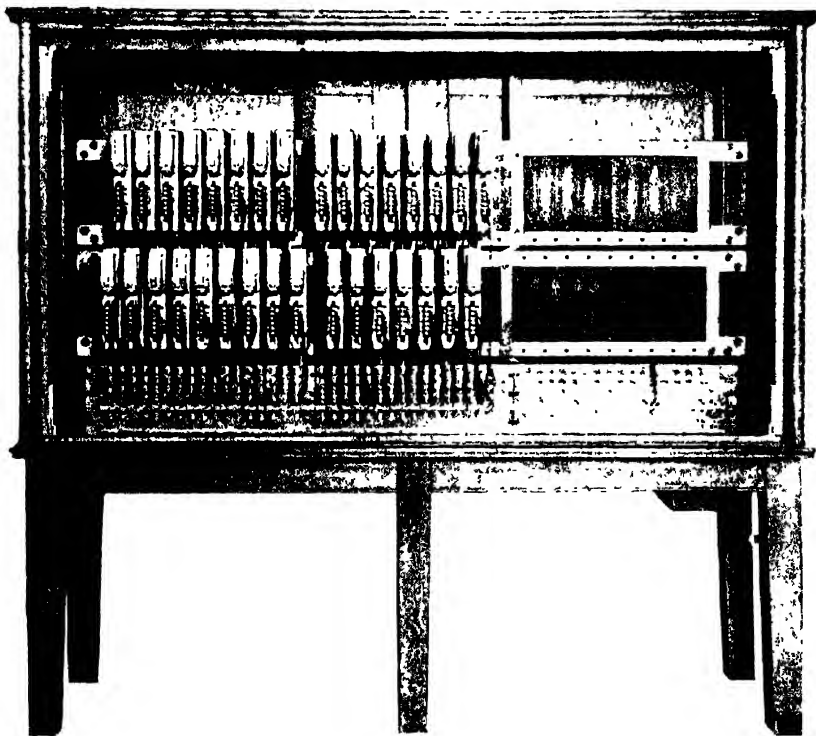
Research Departments

It may be mentioned as an interesting fact that in the application of economic science to business the United States have been to the front. Since 1914 the Harvard University has had a Business Research faculty, and most of the great American Universities have followed suit. Many individual business firms, both in this country and in the United States, have their own well organised business research departments, while several progressive industries have combined to maintain similar activities. It is along these lines that British industry is increasingly turning to attack its problems; there is little doubt that the open-minded investigation of facts bearing on business from all sorts of angles—standardisation, simplification, efficiency, elimination of waste, combinations, fresh methods and new openings, is a fruitful policy.

"NEW SYSTEM" PRIVATE AUTOMATIC EXCHANGE.



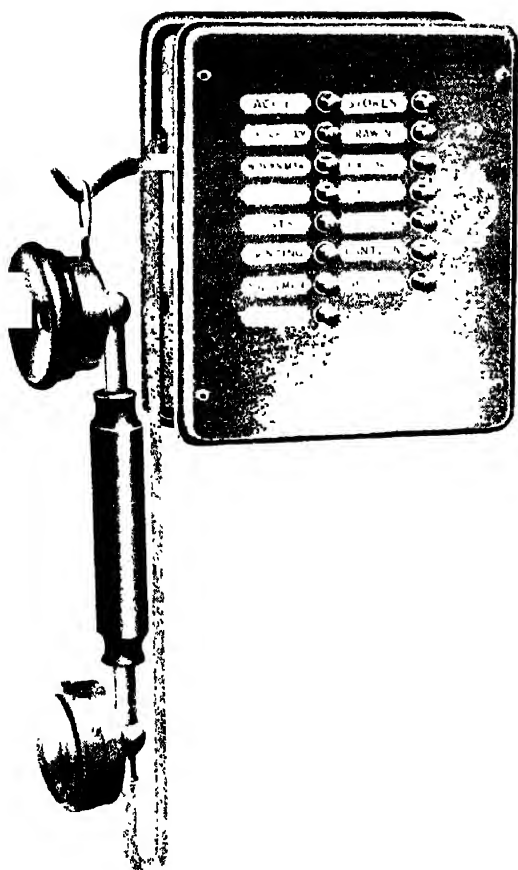
These three illustrations show the Standard Wall and Disk Telephones and Central Switchboard. Every line may be engaged at the same time without any possibility of interference or of any conversation being overheard.



A 50-line "New System" Automatic Exchange showing equipment for 32 lines. Sixteen private conversations can be carried on simultaneously.

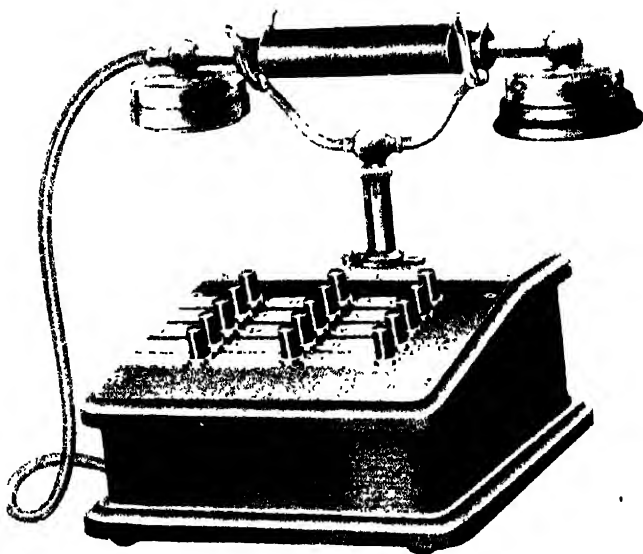
The instruments are supplied by "New System" Private Telephones, Ltd.

NEW SYSTEM™ SELF-REPLACEMENT TELEPHONES.



To make a call the hand com-
is lifted from the cradle
or hook if the instrument is
attached to a wall, and the
appropriate button is pressed.
This causes a bell or buzze
sound at the required station
when the lifting of the Handse
immediately connects the t
instruments. On completion
the conversation both Handset
are replaced, and the line is
automatically restored to the

The receiver and transmitter
are combined in one fitting. An
important feature is the hygienic
mouthpiece on the transmitter
which prevents the collection of
dust or moisture. Each instru-
ment acts as its own exchange,
a button, duly labelled, being
provided for each point it is
desired to call.



Supplied by "New System" Patent Telephones, Ltd.

There can be no doubt either that combinations of the kind we have described do confer great benefits on the individuals forming them by reason of the pooling of information and experience accumulated in many different organisations. To be of any use, research of any kind must be scientific in its methods and comprehensive in its scope. Sometimes a little technical discovery may let in new light upon the whole internal organisation of an enterprise. Business Research is the subject of another article.

Looking Ahead

Some people's idea of organisation is confined to systems of office, or factory, arrangements, to checking, to the tabulating of results, to costing and to routine methods of work. These things are all very well and important in their way, but they are mostly concerned with the business in a retrospective aspect. System and organisation are not synonymous terms; an ingenuity in the system of filing letters, for example, is quite a different thing from an organised plan to secure orders. Organisation looks ahead; it is prospective and progressive; its aim is to better future conditions and blaze out new paths.

Does the building contractor who is to-day erecting a large house in Regent Street and who is employing ten men in a row to pass bricks from a lorry into the building, think this is the most efficient means of moving a load of bricks a distance of some fifteen yards? If he does, he should witness the erection of a new building in the City of London where bricks are moved from the lorry by means of a conveyor, only two men being required—one at each end.

II

INTERNAL ORGANISATION

From this larger aspect of our subject we may now turn to the

application of Organisation in the internal affairs of particular businesses.

The Ideal Office

It would serve no useful purpose to describe in detail the ideal in business offices. The ideal, from the nature of circumstances, can be rarely attained. The general arrangement of even many extensive concerns leaves a great deal to be desired. If towns and streets could be rebuilt at will the suitability of positions and premises would not be so vexing.

The main thing is that business offices and premises should be spacious enough for all requirements; in addition to space, there should be good light; the offices should be compact, inter-communicating, with a minimum of walls and partitions. The segregating of staffs in many rooms means the lack of supervision, as well as waste of much time in persons running to and fro. One large room to accommodate a self-contained department enables the person in charge to see most of the actual work, and to exercise a proper supervision, as well as individual and collective control.

It is a fact that a stranger's first impression of a business concern is usually the way he is received. If there is no proper enquiry room in charge of an intelligent individual, the stranger usually gets into a state of irritation before he ultimately succeeds in getting in touch with the official he wants to see. (The same thing may be said of the telephone arrangements.) There is some truth in what an observant writer says when writing on the contrast between British and American methods:

"There is, however, another point upon which American and British ideas of supreme control may be contrasted with advantage, where we have perhaps less cause to congratulate ourselves on our own methods. We are, as a nation, no doubt, rather great upon the subject

of 'the open door,' and we are inclined to think that we fully appreciate the advantages of the principle of the 'open door,' and consistently apply them; but, if there is one point to which those at the head of important undertakings in this country do not apply the principle of the 'open door,' it is to their private offices. They almost invariably shut themselves up in a sort of inner sanctum, quite unapproachable to any one who is not prepared first of all to run the gauntlet through a small army of officials and secretaries, which involves their explaining their business several times over before any rumour as to its nature reaches the ears of any one competent to form a useful opinion as to whether what they have to propose is, or is not, to the advantage of 'the house.' Of course one finds this in varying degrees, but the principle is almost everywhere in this country.

"In the States, on the other hand, practically any stranger may claim, and succeed in obtaining, an interview with the responsible head of the most important business houses with a delay of minutes rather than weeks. And not only every stranger; every employee has the same privilege. The head judges *for himself* as to the utility of what his caller has to suggest; and he relies upon his own ability to terminate the interview speedily, if he thinks his time is being wasted. In this country, on the other hand, an interview is rarely granted until the head has been convinced, as a result of enquiries among his own immediate assistants, that something useful may result; that is to say, this important process of getting into touch with outside ideas is deputed to persons in comparatively subordinate positions, instead of being regarded as one of the most important—if not *the* most important—of the functions of the chief.

"Here, undoubtedly, is a direct opposition of views on a very vital question of business expediency, and it seems not altogether unreasonable to suppose that the superior adaptability of the American business man may largely be due to the fact that he gets so much more often into touch with outside ideas, and thus runs far less risk of getting fossilised than the Britisher, or of harbouring the delusion that his organisation and plans are perfect in every detail. Not even the most ingenious man can afford to assume that it is impossible for any one to have any useful notions to impart to him."

The First Step

The first thing is to organise the business as a whole. If that is efficiently done it will follow that the management is a nerve-centre, sensitive to every influence that affects the business in any part of its organism.

Every large business is run on departmental lines; the organisation is first concerned with the defining of such departments according to the nature of the business and its ramifications, or the work to be done. The scope of each manager of a department is clearly defined; there should be no uncertainty as to where any manager's or employee's responsibility begins and ends. There can be then no possibility of people giving contradictory instructions to individuals, or of allocating praise or blame to the right quarter. Finally, there must be a system of co-ordination, for no departmental heads should be allowed to become immured in water-tight compartments. There should be no place for "red tape" and petty jealousies. A conference of heads at stated periods helps managers to appreciate each other's difficulties.

A previous chapter in this work gave a bird's-eye view of the organisation of a great Modern Departmental

Store; such Stores are a triumph of organisation; otherwise they simply could not function. We give on another page a chart illustrating the internal organisation of a twentieth century Departmental Store which is taken from Mr. Gordon Selfridge's book, *The Romance of Business*, and reproduced by his kind permission. We would ask the reader here simply to look at it, because that chart will convey a better idea of the problem of organisation inside a great business than any description of it will do.

It is an illustration of hundreds of others in different kinds of businesses, manufacturing and commercial. And yet such a chart does not tell the whole story, for behind it there is much that cannot be presented in the form of a chart. No one can put into the form of a chart the more elusive kinds of organisation that have to do with research work, with the organisation of ideas, with the carrying out of business plans and developments, in a word, with the organisation of the *life* of a business. The physical framework of business organisation does not require to be built up until some business spirit and enterprise has given being to the business itself. The one thing is a mechanism; the other thing is the motive power without which the machine is useless.

The Object of Organisation

The principles that underlie organisation are the same, whether the business is an extensive one, or one of modest dimensions. In either case the object is to get the best results that efficient methods can produce. As we have had occasion to remark in several places elsewhere, it is not possible to lay down definite rules that will apply universally. For instance, every manufacturer cannot, by the nature of his business, usefully adopt the methods of mass production; neither can a modest wholesaler emulate the scope and methods of a great departmental store.

Leaving out of account for the moment the manufacturing industries, the last word in detailed organisation is to be found in Departmental Stores; without an almost perfect organisation the utmost confusion would ensue. A Departmental Store is *one* body with, it may be, a hundred members. Not one member is self-dependent. It forms part of the integral body; it is the harmonious working of each and every part that gives a corporate body perfect cohesion. It is like a piece of complicated machinery which, if it would work smoothly, or work at all, must have every component part in good order.

But a Departmental Store, or indeed any successful business, is more than a machine, inasmuch as it must be something of a live personality; to impart to a business an individuality of its own, something more than the dry bones of a mechanical organisation is needful. Human values must play a part; individuals have to be made to reflect as a whole the personality of *one* ideal individuality. There is one general policy governing everything, and a harmonious co-operation to one end.

But we shall not pursue that elusive subject here further than to say that such a desirable state of things only comes about by the organising genius of some clever person, and it is a matter of gradual growth. Internal organisation is desirable to maintain the smooth running of the business, continuity of method, and as an aid to the staff with lesser experience.' Exceptionally able men are never dependent on stereotyped routine; their methods are part and parcel of their own personality, but no one man, however able, can control the multitudinous operations of a big business without an organised army behind him.

Indeed, some great captains of industry are infrequent visitors at headquarters; by means of efficient reports

and statistical returns sent to them, they can control affairs away from their office. And there is something to be said in favour of this; such a man is in the position of a looker-on; untrammelled by detail and routine, his mind has free play, and will turn to initiative, to survey, and to constructive plans.

We shall therefore confine ourselves here to outlining principles. We need not enlarge on the organising of the sales side of the business as that has been dealt with fully elsewhere. Needless to say, no amount of organisation in itself will make a business successful or keep it progressive. That can only be done by the brains of those who are responsible for keeping the wheels running, the men of restless activity, with ideas, judgment and capacity.

We have seen in a previous chapter how financial control is maintained in a modern store. The principle illustrated there applies to all other kinds of businesses, big as well as modest concerns. It is well known that a large number of bankruptcies are due to manufacturers and merchants (able enough otherwise) trading beyond their capital, or, in other words, losing control of the financial side of their affairs. Able and ambitious persons often find it irksome to be bothered with finance and figures. A little organisation here removes the danger. We shall take financial organisation first.

The Organisation of Finance

The principles of business finance is the subject of another chapter, and we shall not deal with that here except in so far as it impinges on the related question of organisation. The problem of a business possessing only moderate capital is how best to control and supervise the use of that capital to the best advantage. A firm that habitually trades beyond the working capital at its disposal is always in danger of being wrecked. It

may be quite successful in its trading, but over ambitious, and it comes to grief. A good credit standing is of more importance to a business firm than an undue straining after operations too big for its limited means.

As we have said elsewhere in this work, "the point which will engage the attention of the business man is his amount of working capital; the money, that is, which is available for him to buy and hold the maximum stocks, to meet working expenses, to provide the credit represented by his book debts, to maintain an adequate bank balance, to meet all liabilities promptly. In particular, he will see to his bank balance, for there are always emergencies to consider. There may come adverse times, for instance, or there may come sudden opportunities when stocks can be bought in exceptionally favourable circumstances. If heavy interest has to be paid for loans or overdrafts, much of the gilt is taken off the gingerbread. Loans and overdrafts have a bad effect on the credit of a concern."

It is possible for the balance sheet to show a considerable surplus of assets over liabilities, and yet the business to find itself seriously embarrassed for the want of working capital. For example, assume the balance sheet was the one shown on the following page.

This deficiency in working capital indicates an unsound position, because it is always dangerous to be in a position where you do not see your way clear to meet your immediate liabilities. It is not a sufficient argument to urge that, if the value of your stock in hand is added to the amount owing to you, your assets show an ample surplus. Remember *you may be quite solvent and yet unable to pay your way*. Note that the reserve of £4,000 adds nothing to the liquid assets as the amount is invested in the business; there are no investments on the other side of the balance sheet that can be realised.

BALANCE SHEET

| <i>Liabilities.</i> | | <i>Assets.</i> | |
|----------------------------|---------|----------------------------------|---------|
| Sundry Creditors | £10,600 | Cash in Bank | £ 275 |
| Bills Payable | 1,500 | Sundry Debtors | 8,960 |
| Reserve Account | 4,000 | Stock | 15,200 |
| Capital | 13,185 | Furniture and Fittings | 1,850 |
| | | Goodwill | 3,000 |
| Total | £29,285 | Total | £29,285 |

The 'Capital' in the above business is £13,185.

If we analyse the Liabilities we find that

| | | |
|--|---------|---------|
| The firm owes Sundry Creditors | £10,600 | |
| " " On Bills Payable | 1,500 | |
| | | £12,100 |

If we analyse similarly the Liquid Assets we find

| | | |
|---------------------------------------|--------|--------|
| Sundry Debtors owe the Firm | £8,960 | |
| It has Cash in Bank | 275 | |
| | | £9,235 |

Leaving a deficiency of available Working Capital.

£2,865

One of two things is the reason for the firm being in the position illustrated above—either it has been over-buying and therefore carrying a stock which is too heavy for the business it is doing, or its working capital (which is available cash) is insufficient for the needs of the business. Which-ever of these reasons may be the true one, the firm is conducting its business on an unsound basis. It is possible for capital to be "locked up" in stock in trade, machinery, etc. And there is thus a danger in carrying a heavier stock than the sales warrant, and beyond what the firm can pay for as payments become due.

There is also another point to be kept in mind with regard to working capital; a firm may be obliged to give a more extended credit than it receives. This also must be taken into account in estimating cash requirements. Whenever the finance of a business is allowed to get into a position similar to any of these, the result is certain to be financial embarrassment.

When the cash position is somewhat stringent the temptation is to resort to giving bills in settlement of accounts. The use of bills is often of great convenience when it is quite certain that the temporary accommoda-

tion will involve no embarrassment when the bills have to be met as they fall due. If, however, there is any doubt on that point there is a danger. One can easily lose control of the financial situation by giving bills falling due at all sorts of dates when cash may not be available. One must budget well ahead to make certain that liabilities of this kind shall be provided for. Care should be taken that bills are drawn for such a term as will coincide with the date when money will be coming in to the business and be available to meet them—otherwise financial confusion will inevitably ensue.

The same foresight must be exercised before any new enterprise involving special outlay is embarked upon, or before orders are placed for additional plant or new machinery. The first question the prudent business man will ask is, "Where is the money to come from?" The part the Joint Stock banks play in financing trade is dealt with in the chapter on Banking.

An elementary knowledge of finance and a little forethought will often prevent an awkward position arising. A business man must exercise forethought continuously in this direction. If he waits until such time as his annual balance sheet

is in his hands he might wait until it is too late.

Monthly Summaries

We have here again an illustration of the advantage of organisation, and the practical advantages of statistical returns and monthly summaries. If a concern would control its finances the principal must look ahead; he must have such statements and estimates prepared as will inform him what funds in the form of cash will be available to meet liabilities in the shape of accounts owing for purchases, expenses, etc., at a given date. This is equally important whether he experiences a time of prosperity or adversity.

He must therefore take periodically a careful survey of the free capital at his disposal, and estimate for some months in advance what his cash requirements will be.

The half-yearly, or yearly balance

sheet gives a bird's-eye view of the financial position, as we have seen. What the balance sheet shows yearly, proper statistical returns can show *monthly*, with sufficient accuracy for the practical purposes of the moment. In most businesses interim trading accounts can be drawn up on similar lines to that shown on page 170.

The interim trading account shows the estimated profits for the month, which is useful. But that statement has nothing to do with the financial position. It is not usual to make a monthly summary of all debtors and creditors, although it may be done without too much labour. To ascertain the financial position all that is usually needful is to prepare a summary as shown below. If a monthly interim trading account is not prepared, the monthly financial estimate should be preceded by a statement of the previous month's sales and purchases, thus :—

MONTHLY STATEMENT

Jan. 1

To Stock

£15,840

Jan. 31

By Stock

£16,212

„ 31

„ Purchases

40,115

„ 31

„ Sales

54,114

FINANCIAL ESTIMATE

Receipts :—

Cash in Hand . . .

£160

„ „ Bank . . .

5,431

Estd. Receipts Trade

Accounts in Feb. . .

50,100

Bills Receivable due

in Feb.

1,400

£57,091

Payments :—

Estimated Trade Ac-

counts due . . .

£35,200

Estimated Salaries

and Wages . . .

3,000

Estimated Expenses .

12,400

Estimated Other Pay-

ments

—

Bills Payable due in

Feb.

1,750

£52,350

Balance

£4,741

on the other hand, if sales are declining quickly and the buying is not keeping pace, these statements provide timely warning of the financial position. In practice the financial estimate may be much more complicated than the simple illustration given.

III

ORGANISATION OF ACCOUNTS

We may turn now to consider the art of analysing, systematising and applying business figures with special reference to the utility of such periodical summaries and statistical returns as are most essential for the executive heads of a business.

The aim of Organisation is to provide definite and sufficiently elastic

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III

ORGANISATION OF ACCOUNTS

We may turn now to consider the art of analysing, systematising and applying business figures with special reference to the utility of such periodical summaries and statistical returns as are most essential for the executive heads of a business.

The aim of Organisation is to provide definite, yet sufficiently elastic, arrangements to meet all the varying needs for the conduct of a business, to dovetail the various departments, enabling the work to be carried on,

Unless a firm has ample cash resources, it is advisable to prepare careful budgets of this kind. If a business is developing rapidly, or,

with a minimum of friction and a maximum of efficiency.

Office Procedure

In office procedure the province of organisation is to devise the most serviceable means of supplying, and making readily accessible, all possible records and data regarding the work that goes on through the whole of the business. It is by such means the management is enabled at any time to obtain accurate information on which to base its policy.

A general manager amongst other things is concerned with the production department and the promotion of selling plans, but to guide him he must have placed in his hands informative records as to the progress of events, of the position of affairs, and achieved results; thus he is enabled to control buying and expenses, and to keep a watchful eye on the progress of the business at every step. This information concerning the operations of the business he obtains from tabulated results and summarised reports prepared for him. Indeed, the whole management must be guided, and its actions determined, by the facts developed in this way.

Although in recent years quite a revolution has taken place in commercial matters, there are still offices and warehouses all over the country where business is conducted very much as it was well-nigh half a century ago. Under the ever varying conditions of to-day there is always, even in the best managed concerns, scope for introducing improved methods.

The field is unlimited for the enterprising young business man who can exercise his intelligence in the direction of inventing, or improving, methods designed to expedite business, and to increase the working efficiency of whatever department he may be connected with.

The average person never attempts to get outside routine methods of work. He has been trained in routine methods, he sticks to routine methods,

he would never dream of going outside the customs of whatever particular position he may find himself for the time being. Assistants of this description vegetate in offices and warehouses all over the country. They believe in what they know and have been used to, but are deeply suspicious of everything to which they have not been accustomed.

The Alert Man

We may be pardoned if we interpolate here a word of advice to the young man in a junior position. No training will prove of service to him if, having obtained his preliminary experience, and having reached the point of being able to form a judgment for himself, he is unable to bring his intelligence to bear upon his work, to adapt himself to the extent of suggesting improvements where improvements can be made, of initiating new plans, of suggesting ways and means. A man is a slave of routine who can never find an opportunity for the exercise of intelligent initiative; he will never be more than an ordinary assistant, who can lay no claim to advancement. His position and success will depend on the use that he makes of his intelligence in determining whether the particular work entrusted to him is being done as well as it can be done.

One will not receive much practical help from an indiscriminate study of everything that is written about business systems, methods and organisation. The result is more likely to be harmful than otherwise. It is impossible to devise any one system that will be the best possible system for every business. The essential thing in this, as in every other department of business activity, is the training of the judgment to deal with actual problems as they arise.

The Inventive Faculty

The first requirement for the exercise of judgment is for the assistant to have a full knowledge of the ulti-

mate object or aim of the daily work on which he is engaged. If he has that full knowledge and if he has a keen interest in the matter in hand, he will be in a position to use his judgment in planning improvements. They may be little and insignificant, but if they *are* improvements and if he can effect them he has taken the first step. He has done something.

There is room for suggestion even in the method of keeping a Postages Book, or a Petty Cash Book. These books have perhaps only a single cash column; postages or petty expenses can be analysed—and no business is too small not to make that worth while—by providing three columns with suitable headings to make information, that would have formerly taken much time to arrive at, accessible at a glance.

It is as easy to enter items in separate columns under an appropriate heading, as under one general heading. Methods such as this can be extended indefinitely in every department of office work. Analytical methods of this kind are employed by all well organised offices in regard to Purchases Books, Sales Books, Cash Books, Ledgers and so on. It is from such data the most practical information is derived, because they form the basis of the monthly statistical records to which we shall refer presently. It is only by such analyses and comparisons that weak links can be discovered.

Tabulated and summarised information prepared in an intelligent manner is indispensable to the principal of a business; it is only thus he can get an immediate grasp of the doings, position and progress of each department.

There are still other directions in which these methods may be applied. Efficiency need not be confined to the counting house, it is just as needful to organise carefully the work of a receiving room, a despatch room, or a stock room, or any other department. And probably most of all is system necessary in planning advertising schemes, and "follow-up" systems.

Book-keeping Organisation

IN dealing with book-keeping and accountancy in a previous chapter these subjects were kept purposely as free from too much detail as possible. Once the theory of book-keeping is thoroughly grasped, the more complicated details are readily apprehended.

Where the business is an extensive one, something more is necessary than the simple set of books we have previously considered. These were all concerned with book-keeping proper, that is, books which are necessary to show the results of trading in a profit and loss account and a balance sheet. There are books which are not books of account, as these are, but rather statistical and analysis books which are outside that purpose. They are supplementary to them, but do not form part of the book-keeping necessary for accountancy purposes.

We shall deal first with the extended methods applied to books of account, and secondly, with the statistical and other books of a supplementary nature. In this way we shall be able to appreciate what the nature of the detail books are from which statistical returns and summaries are readily compiled.

With a business of extensive proportions the simple Purchase Day Book, and Sales Book, of which examples have been given, are not sufficient if efficiency is to be considered. In a well organised office the accountant will introduce classification and sub-division. Where there are many ledgers—Bought Ledgers, Sales Ledgers, Plant Ledgers, General Ledgers, Private Ledgers and other Ledgers—it is of the utmost importance in the interests of efficiency, time-saving and economy, that each ledger should be what accountants call "self-balancing." This simply means that all the books of first entry, from which these ledgers are written up, should be kept in such a way that it ought to be possible to make a completely independent trial

balance of each separate ledger. Clerks in charge of these are expected to make a trial balance for themselves. Thereby the final work of balancing is greatly facilitated; in addition, any errors are more easily localised and a more complete control is exercised over departmental transactions. We shall return to that. Meanwhile the point is, all the subsidiary books must be arranged to correspond with the various ledgers, if the latter are to be "self-balancing."

The Classification of Sales—Purchases and Expenses

The method of classifying sales will depend on the needs of the particular business and the daily needs of that business. What may be practicable for one business may not be convenient for another.

In one particular kind of business, for example, it may not be practicable to have a separate Sales Book for *each* department, as well as for *each* separate district. The advantage of

the latter, where several travellers are employed by the firm, is that the total sales in each individual district is easily arrived at, and supplies useful information for the management.

If it is not convenient to classify the Sales Book in this way, the method to be adopted, to arrive at the same result, is to institute a Sales Analysis Journal. This is important in another respect. If departments are to show independent results, that is, if they are to have their own separate trading accounts, then provision must be made for an analysis that will supply the needful data. Something of the nature of a Sales Analysis Journal (in the absence of Sectional Sales Books) is needed.

The same thing applies to Purchases, where again analysis is necessary.

We give below a specimen of what such Sales and Purchases Analysis Journals would be like. In addition, an Expenses Analysis Journal is needful, and a specimen of that also is given.

SALES ANALYSIS JOURNAL

| Date | Day Book No | Total | | | A Dept. | | B Dept. | | | | | | C Dept. | | | | | | D Dept. | | | |
|-----------------|-------------|-------|----|----|---------------------------|----|--------------------------|-----|----|--------------------|-----|----|-------------|-----|----|------------------------|-----|----|--------------|----|---|---|
| | | | | | Silks and Dress Materials | | Calicoes and Linen Goods | | | Prints and Cottons | | | Fancy Goods | | | Furnishing and Drapery | | | Haberdashery | | | |
| | | £ | s. | d. | £ | s. | d. | £ | s. | d. | £ | s. | d. | £ | s. | d. | £ | s. | d. | | | |
| Total for Month | | 2030 | 5 | 6 | 700 | 10 | 6 | 413 | 5 | 0 | 257 | 1 | 9 | 136 | 5 | 0 | 429 | 1 | 6 | 04 | 1 | 9 |

PURCHASES ANALYSIS JOURNAL

| Date | Invoice No. | Total | | | A Dept. | | B Dept. | | | | C Dept. | | | | D Dept. | | | | | | | |
|------|-------------|-------|----|----|---------------------------|----|--------------------------|-----|--------------------|----|-------------|----|------------------------|----|--------------|----|-----|---|---|----|---|---|
| | | | | | Silks and Dress Materials | | Calicoes and Linen Goods | | Prints and Cottons | | Fancy Goods | | Furnishing and Drapery | | Haberdashery | | | | | | | |
| | | £ | s. | d. | £ | s. | d. | £ | s. | d. | £ | s. | d. | £ | s. | d. | | | | | | |
| | | 1609 | 17 | 9 | 536 | 1 | 0 | 307 | 9 | 0 | 300 | 1 | 3 | 81 | 3 | 0 | 300 | 1 | 0 | 76 | 2 | 6 |

EXPENSES ANALYSIS JOURNAL

[illegible]

It will be readily seen how the totals of the different departmental purchases and sales at the end of each month are ascertained for the purposes of estimating stock and regulating purchases, as we shall explain later.

Classification of Cash Books

The importance and convenience of classifying entries in the Cash Book in separate columns, or having more than one Cash Book, are apparent where there are a multiplicity of entries. A great saving of time and trouble is effected. The modern Cash Book is provided with separate columns cor-

responding to the various Ledgers into which the items are posted.

It is frequently an advantage to have several Cash Books. For example, one that will relate to the Sales Ledger only. It will contain the particulars of payments received from trade debtors and will have separate columns corresponding to the several Ledgers, thus facilitating the balancing of all ledgers separately. Such an arrangement also enables various ledger clerks having access to their own particular Cash Book, instead of to one Cash Book passing round from one ledger clerk to another.

CR.

| Date | Name | No. 1 Ledger | | No. 2 Ledger | | No. 3 Ledger | | Date | Name | No. 1 Ledger | No. 2 Ledger | No. 3 Ledger |
|------|------|--------------|------|--------------|------|--------------|------|------|------|--------------|--------------|--------------|
| | | Dis. | Cash | Dis. | Cash | Dis. | Cash | | | Cash | Cash | Cash |
| | | | | | | | | | | | | |

The payments being in the nature of cash returned to customers will be, if preferred, they can pass through the General Cash Book.

The payments being in the nature of cash returned to customers will be few and, if preferred, they can pass through the General Cash Book.

The totals of these Cash Books are transferred daily or monthly to the General Cash Book, in the manner here shown :

unreasonably, because a small discount arranged for is often the result of keen buyers and salesmen. The discount columns, therefore, are generally posted to the debit or the credit of the several trading accounts.

It may be called "petty," but in fact it is a book which demands close attention, and it should be kept on the most approved method. The system known as the "imprest" system is the best. Such a book may be ruled in either of two ways, as follows:

[illegible]

DR.

PETTY CASH BOOK (SECOND FORM)

CR.

| Date | | Amount Received | | | Date | Particulars Cash Paid | Amount Paid | | | Analysis Columns | | |
|--------|---------------|-----------------|----|----|--------|--|-------------|----|----|------------------|------------|---------|
| | | £ | s. | d. | | | £ | s. | d. | Postages | Stationery | General |
| Jan. 1 | To Cash | 50 | 0 | 0 | Jan. 7 | By Pay- ments— to be de- tailed . By Balance | 46 | 2 | 3 | | | |
| | | | | | | | 3 | 17 | 9 | | | |
| | | 50 | 0 | 0 | | | 50 | 0 | 0 | | | |
| Jan. 7 | To Balance | 3 | 17 | 9 | | | | | | | | |
| | To Cash | 46 | 2 | 3 | | | | | | | | |
| | | 50 | 0 | 0 | | | | | | | | |

The feature about the "imprest" system is this:—The petty cashier is started with a round sum of money, say £50. Out of this he makes his payments for the week. At the end of the week he receives from the chief cashier a cheque for the exact amount he has paid out, and his balance is again restored to the round sum he started with. In the ledger he is always debited with this round sum as being in hand. At the date of closing the books the sum, or the balance of it, is repaid to the chief cashier, and there will be no "Petty Cash Balance."

This system lends itself to systematic supervision. Each time the weekly cheque is asked for, the Petty Cash Book comes directly before the cashier for inspection. On the other hand, if cheques are asked for at various times and for various amounts, as required, the regular inspection of the disbursements is apt to be overlooked and the check on the Petty Cashier becomes loose. Cashiers, like other managers, are busy people and are apt to leave over small things to a more convenient time.

The advantage of this book having various columns is that it shows various *classes* of petty cash payments at a glance; the analysis is also there for posting to the account concerned.

Self-balancing Ledgers

It is perhaps superfluous to say that none of these extended methods makes any difference in making journal entries, or in posting to the ledgers. Their effect is merely to facilitate the keeping of the Ledger Accounts and to eliminate the chances of errors. Each ledger clerk knows the work for which he is responsible, and the accountant in charge can quickly see at any time whether each ledger clerk is keeping his own work up-to-date.

Now as the Sales Ledgers and the Bought Ledgers contain only personal accounts without any corresponding "Sales Account," or "Purchases Account" to take the double entry, how are they to be made self-balancing? How can the ledger clerk make his own trial balance for the ledgers under his particular charge? Quite simply.

For the purpose of making, say, each Sales Ledger self-balancing another account will be opened in the *particular ledger*. This account will take the second or *double* entry posting. The sales are first posted to the *debit* side of the personal accounts in the Sales Ledger. In the usual way the total of the sales is posted to the *credit* of the Sales Account in the *General Ledger*, completing the double entry. This ledger

is not, however, under the charge of the sales ledger clerk. What he must do is to open in his Sales Ledger a corresponding account to the Sales Account and call it "General Ledger Account," thus, for the purpose of making his ledger self-balancing, he effects the double entry.

To the *Credit* of this "General

Ledger Account" he will post the total of the Sales Book; and to the *debit* of this account he will post the total cash received and discount allowed (as shown by the particular Cash Book column), and so with the total of the Returns Book, thus effecting the double entry. This General Ledger Account will then be as follows:

GENERAL LEDGER ACCOUNT

| 1927 | | £ | s. | d. | 1927 | | £ | s. | d. |
|---------|-----------------|-------|----|----|---------|------------------|-------|----|----|
| Jan. 31 | To Cash . . . | 1,611 | 10 | 0 | Jan. 1 | By Balance b/d . | 900 | 10 | 0 |
| " | " Dis. . . . | 56 | 0 | 0 | " 31 | " Sales . . . | 1,401 | 2 | 0 |
| " | " Returns . . | 12 | 5 | 0 | Feb. 28 | " Do. . . . | 1,605 | 7 | 0 |
| Feb. 28 | " Cash . . . | 1,530 | 14 | 0 | Mar. 31 | " Do. . . . | 1,112 | 9 | 0 |
| " | " Dis. . . . | 70 | 0 | 0 | | | | | |
| " | " Returns . . | 15 | 9 | 0 | | | | | |
| Mar. 31 | " Cash . . . | 750 | 14 | 0 | | | | | |
| " | " Dis. . . . | 36 | 5 | 0 | | | | | |
| " | " Returns . . | 12 | 0 | 0 | | | | | |
| " | " Balance c/d . | 924 | 11 | 0 | | | | | |
| | | 5,019 | 8 | 0 | | | 5,019 | 8 | 0 |
| | | | | | | | | | |
| | | | | | Apl. 1 | By Balance b/d . | 924 | 11 | 0 |

What does the balance of £924 11s. 0d. represent? It represents, of course, the total balance of the open (or unpaid) accounts in the ledger. These are abstracted from the individual accounts in the ledger on to a sheet of paper. The total should agree with the above balance, if the postings and additions of the various books have been correctly made. The extracting of the individual balances of the personal account is, of course, not an additional labour. It has to be

done *always* at the date of the closing of the books.

Now we see the advantage of making each ledger clerk responsible for his own work, and the saving of time and heart-breaking in being able to trace any error revealed in the final balance sheet to a *particular ledger*.

Exactly the same method is pursued with the Purchase Ledgers. In this case the "General Ledger Account" opened in the Purchase Ledger will be as follows:

GENERAL LEDGER ACCOUNT

| 1927 | | £ | s. | d. | 1927 | | £ | s. | d. |
|---------|------------------|-------|----|----|---------|-----------------|-------|----|----|
| Jan. 1 | To Balance b/d . | 761 | 2 | 0 | Jan. 31 | By Cash . . . | 811 | 6 | 0 |
| " 31 | " Purchases . | 911 | 4 | 0 | " | " Dis. . . . | 40 | 4 | 0 |
| Feb. 28 | " Do. . . . | 871 | 3 | 0 | " | " Returns . . | 7 | 6 | 0 |
| Mar. 31 | " Do. . . . | 794 | 6 | 0 | Feb. 28 | " Cash . . . | 641 | 5 | 0 |
| | | | | | " | " Dis. . . . | 30 | 7 | 0 |
| | | | | | " | " Returns . . | 10 | 11 | 0 |
| | | | | | Mar. 31 | " Cash . . . | 979 | 9 | 0 |
| | | | | | " | " Dis. . . . | 45 | 1 | 0 |
| | | | | | " | " Returns . . | 7 | 3 | 0 |
| | | | | | " | " Balance c/d . | 765 | 3 | 0 |
| | | 3,337 | 15 | 0 | | | 3,337 | 15 | 0 |
| | | | | | | | | | |
| Apl. 1 | To Balance b/d . | 765 | 3 | 0 | | | | | |

We come now to the General Ledger. Here there is, of course, the "Sales Account" and the "Purchases Account." They are not affected and remain as they are. To make *this*

Ledger self-balancing also, two new accounts are opened which are the exact counterpart (1) of the General Ledger Account in the Sales Ledger, and (2) in the Purchase Ledger.

SALES LEDGER ACCOUNT

| 1927 | | £ | s. | d. | 1927 | | £ | s. | d. |
|---------|------------------|-------|----|----|---------|-----------------|-------|----|----|
| Jan. 1 | To Bal. b/d . . | 900 | 10 | 0 | Jan. 31 | By Cash . . . | 1,611 | 10 | 0 |
| " 31 | " Sales . . . | 1,401 | 2 | 0 | " | " Dis. . . . | 56 | 0 | 0 |
| Feb. 28 | " Do. . . . | 1,605 | 7 | 0 | " | " Returns . . | 12 | 5 | 0 |
| Mar. 31 | " Do. . . . | 1,112 | 9 | 0 | Feb. 28 | " Cash . . . | 1,530 | 14 | 0 |
| | | | | | " | " Dis. . . . | 70 | 0 | 0 |
| | | | | | " | " Returns . . | 15 | 9 | 0 |
| | | | | | Mar. 31 | " Cash . . . | 750 | 14 | 0 |
| | | | | | " | " Dis. . . . | 36 | 5 | 0 |
| | | | | | " | " Returns . . | 12 | 0 | 0 |
| | | | | | " | " Balance c/d . | 924 | 11 | 0 |
| | | | | | | | | | |
| | | 5,019 | 8 | 0 | | | 5,019 | 8 | 0 |
| | | | | | | | | | |
| Apl. 1 | To Balance b/d . | 924 | 11 | 0 | | | | | |

PURCHASES LEDGER ACCOUNT

| 1927 | | £ | s. | d. | 1927 | | £ | s. | d. |
|---------|-----------------|-------|----|----|---------|------------------|-------|----|----|
| Jan. 31 | To Cash . . . | 811 | 6 | 0 | Jan. 1 | By Balance b/d . | 761 | 2 | 0 |
| " | " Dis. . . . | 40 | 4 | 0 | " 3 | " Purchases . | 911 | 4 | 0 |
| " | " Returns . . | 7 | 6 | 0 | Feb. 28 | " Do. . . . | 871 | 3 | 0 |
| Feb. 28 | " Cash . . . | 641 | 5 | 0 | Mar. 31 | " Do. . . . | 794 | 6 | 0 |
| " | " Dis. . . . | 30 | 7 | 0 | | | | | |
| " | " Returns . . | 10 | 11 | 0 | | | | | |
| Mar. 31 | " Cash . . . | 979 | 9 | 0 | | | | | |
| " | " Dis. . . . | 45 | 1 | 0 | | | | | |
| " | " Returns . . | 7 | 3 | 0 | | | | | |
| " | " Balance c/d . | 765 | 3 | 0 | | | | | |
| | | 3,337 | 15 | 0 | | | 3,337 | 15 | 0 |
| | | | | | | | | | |
| | | | | | Apl. 1 | By Balance b/d . | 765 | 3 | 0 |

Where self-balancing ledgers are not in use, the same object is attained by using loose sheets of paper, a very loose proceeding, for mere memoranda, and loose sheets of paper are not part of any system of book-keeping. Sectional balancing should be done in a businesslike way where the record is a permanent one, and under the eye of the accountant. The value of this account to him is considerable; he can always see whether the work of the counting-house is being efficiently and regularly performed. Each ledger

is balanced irrespective of any other ledger. The final advantage is that the General Ledger, where self-balancing ledgers are in use, *is an epitome of all the ledgers*. All the data essential for a final balance will be found in the General Ledger. There is in reality no additional work.

Statistical Summaries

Apart from the usual financial books of accounts, in every extensive business there will be found other books of a subsidiary kind whose purpose

is to enable Directors and Managers to keep a close control of affairs. Indeed, where any regard is had to organisation and control, such books as these which provide regular statistical information, periodical returns, interim trading accounts and so on, are indispensable.

In the majority of businesses the art of applying business figures is almost as important as a knowledge of book-keeping, and in certain businesses it is even more so. The value of statistical returns in providing informative data concerning the progress of a business, and in such matters as the controlling of expenses, the regulation of buying and the management of stocks, cannot be overstated.

There are few businesses where it is not practicable to introduce appropriate methods of this kind. It is possible to do so in almost every business, whether trading or manufacturing. For this, amongst other reasons, statistical returns and cost accounts is a matter which merits the closest attention.

How to Make the Most of Figures

A ready method of periodically ascertaining the fluctuations of expenses and stocks is essential in every trading business. And no manufacturing concern should be without a system of Cost Accounts. If a manufacturer keeps only the ordinary financial accounts he may know that he is making a certain margin of profit on his whole business, but he cannot tell whether the profit is a uniform one over the whole concern, or whether it is made up of the difference between a large profit in one or more departments and a loss in another.

To say the least, he is quite in the dark as to *where* he is making the largest margin of profit, and he may therefore be pushing his business with the greatest energy where it is the least profitable to do so. Now, if he knew precisely the *percentage of profit* realised

by each section of his business, he would be able to devote his energies to the best advantage, and would know exactly where, and how far, he could afford to modify his prices to meet the keen competition of the present day, both at home and abroad. He would know where he is making profits and where he is making losses, for it is not at all unlikely that he may be doing both, without being aware of the fact. Cost accounts are designed more particularly for manufacturing concerns, but there are analogous devices in trading businesses in the form of statistical records which are capable of fulfilling a like purpose.

The Use of Percentages

The figures supplied by the trading account can be made to tell more than appears at first sight; they should not be regarded simply as achieved results; they must be analysed with a view to discovering weak points which can be remedied in the following year. No one should rest satisfied with knowing that his gross profit, or his net profit, is so much in round figures. The results should be worked out in percentages. A fluctuation in percentage is a far more effective demonstration of the tendency of your business than aggregate totals.

A profit for the year might be say £4,500 as against £4,000 for the previous year. But if the sales were £25,000 this year as against £20,000 of the previous year, then the percentage of profit has not been maintained. If it had been the profit for the current year would have been £5,000 instead of only £4,500. Important points of this kind do not become apparent (neither in the Profit and Loss Account, nor in other directions) until percentages are worked out. Obviously the next step is to discover the reason for the reduced percentage of profit.

The total sales should be taken as a basis for calculating the percentage

of profit, of expenses, &c. Gross profit is ascertained by means of the Trading (or Profit and Loss) Account. When the gross profit has been arrived at, the next step should be to calculate what percentage it bears to sales. The sales amount to so much, and the purchases (less stock) is so much, the difference is the gross profit. What percentage does this realised profit show on the sales?

This should always be worked out *and compared with previous periods.*

Similarly every different class of expense shown in the Trading Account should be worked out to show the percentage on the sales.

It is only by working out percentages in this way that one can really find out whether certain expenses are higher or lower than in previous years. For example, the *sales may be increasing*, but the travelling and other expenses may be increasing also at a ratio which leaves you with a less margin of profit than if the sales and expenses were stationary.

Once you know the average percentage of expenses on your turnover, you can form an opinion as to how far you can reduce your gross profit to meet some special competition.

As an example take the following analysis of a Trading Account:

ANALYSIS OF TRADING ACCOUNT

| Total sales. | | | Gross profit. | | Per- cent- age. | Expenses. | | Per- cent- age on sales. | Net profit. | | Per- cent- age on sales. |
|--------------|--------|-------|---------------|-------|-----------------------|-----------|-------|-----------------------------------|----------------|-------|-----------------------------------|
| | £ | s. d. | £ | s. d. | | £ | s. d. | | £ | s. d. | |
| 1925 | 30,000 | 0 0 | 4,650 | 0 0 | 15.50 | 3,610 | 0 0 | 12.03 | 1,040 | 0 0 | 3.47 |
| 1926 | 40,000 | 0 0 | 6,410 | 0 0 | 16.02 | 5,200 | 0 0 | 13.00 | 1,210 | 0 0 | 3.02 |

If we look at these figures we see that for 1926 the turnover was £40,000 and the net profit £1,210; this is equal to 3.02 per cent. on the sales; for the previous year the turnover was £30,000 and the net profit was £1,040, this is equal to 3.47 per cent. on the sales—a decrease of net profit in 1926 of 0.45 per cent. Thus the profit for 1926 was £170 more than in 1925, but remember the sales were £10,000 more. If the business had realised the same percentage of profit in 1926 as in 1925 the increased profit would have been £350 instead of only £170. In fact, the *percentage* of profit was nearly a half per cent. less than in the previous year. With an increased turnover one would naturally expect the profit to show a higher and not a less percentage.

If the percentage had not been worked out this fact would not have been made so plain to the principal. The decreased ratio in the percentage

shows that something must be investigated to account for this shrinkage of profit.

More Analysis

On looking further at the analysis it will be found that the gross profit in 1926 was more than in 1925, so that the decrease in the net profit must be looked for in greatly increased expenditure; the expenses will be analysed with the object of discovering where this has taken place. As we have already stated, expenses should be classified under appropriate headings—the preparation of a statement such as that given below is then an easy matter. By the preparation of analyses of this kind one can see how comparatively simple it is to determine whether a shrinkage in profit is accounted for by selling at a reduced profit, or whether the increased expenses incurred to obtain increased sales has been profitable in the long run.

ANALYSIS OF EXPENSES

| | Year ending 31st December, 1925. | | | Year ending 31st December, 1926. | | |
|---------------------------|-------------------------------------|----|-------|-------------------------------------|----|-------|
| | Sales = £30,000. | | | Sales = £40,000. | | |
| | £ | s. | d. | £ | s. | d. |
| Advertising | 100 | 0 | 0 | 390 | 0 | 0 |
| Bad Debts | 350 | 0 | 0 | 500 | 0 | 0 |
| Carriage | 560 | 0 | 0 | 710 | 0 | 0 |
| Discounts | 680 | 0 | 0 | 1,200 | 0 | 0 |
| Depreciation | 320 | 0 | 0 | 400 | 0 | 0 |
| Rent | 150 | 0 | 0 | 200 | 0 | 0 |
| Rates and Taxes | 250 | 0 | 0 | 300 | 0 | 0 |
| Salaries | 1,200 | 0 | 0 | 1,500 | 0 | 0 |
| Total | 3,610 | 0 | 0 | 5,200 | 0 | 0 |
| | | | 12-03 | | | 13-00 |

Without such an analysis as this (there will be usually many more items than shown above) of the Trading Account and the Expenses, a person might wrongly assume that his gross profit was too small, and therefore he would raise his selling price, while as a matter of fact what he should have done in the case in point was to curtail the expenses.

This analysis of trading figures may be carried out in another direction.

A system of properly classified statistical records is of great service in retail stores, as well as in wholesale houses. Here it is of inestimable advantage to have a ready method of estimating periodically the fluctuations in stocks. From Monthly Summaries of Purchases and Sales a ready means of ascertaining the increases, or decreases, in the amount of stock carried can be obtained. The following is a method of estimating monthly stocks.

STOCK STATEMENT

| | | |
|-------------|---|--------|
| January 1. | Stock at date | £5,000 |
| January 31. | Purchases for month | 2,500 |
| | | £7,500 |
| January 31. | Sales for month | £3,000 |
| | Deduct 30% for estimated Gross Profit | 900 |
| | | £2,100 |
| | Approximate stock (cost price) | £5,400 |

It will be noticed that 30 per cent. is deducted from the sales, the reason for this, of course, is that it is the cost price of the stock you want to arrive at. To do this, therefore, one must deduct from the gross sales the estimated average profit which he anticipates to realise. If special reductions to any extent were made on the usual sale prices, allowance must be made accordingly in deducting the percentage of gross profit.

The sales thus reduced to cost price indicate whether over-buying has

taken place as, generally speaking, the purchases should keep pace with the selling and not exceed it inordinately.

The Monthly Return given below is one in general use in large establishments—it is equally suitable for smaller businesses. It shows in summary form, month by month, the purchases, the sales, and the estimated stock. In this statement the gross sales are deducted: the 30 per cent. estimated profit being added thereafter. (The result, of course, as regards the estimated stock is the same

as taking off the 30 per cent. from sales previous to deducting the amount as shown in the above statement.)

The method below has the advantage of showing the estimated profit separately in the stock return itself.

MONTHLY STOCK RETURNS

| | Jan. | Feb. | March. |
|---|--------|--------|--------|
| Stock at commencement of month | £3,920 | £4,177 | £4,017 |
| Purchases for month | 1,090 | 2,200 | 1,750 |
| | 5,010 | 6,377 | 5,767 |
| Less Sales for month | 1,250 | 3,540 | 3,120 |
| | 3,760 | 2,837 | 2,647 |
| Add 33½% estimated Gross Profit | 417 | 1,180 | 1,040 |
| Estimated stock at end of month | 4,177 | 4,017 | 3,687 |

From the Monthly Stock Summary and the Monthly Summary of Ex-

penses, an Interim Trading Account can be drawn up at any time as follows :

INTERIM TRADING ACCOUNT

| | | Debits. | | | | Credits. | | Gross profit. | Ex-penses | Net profit. |
|----------|----------------|---------|--------|----------|-----------------|----------|--------|---------------|-----------|-------------|
| | | £ | £ | | | £ | £ | £ | £ | £ |
| 1907. | | | | 1907. | | | | | | |
| Jan. 31 | To Stock . . . | 3,900 | | Mar. 31 | By Sales . . . | 5,000 | | | | |
| Mar. 31 | „ Purchases . | 4,100 | | „ | „ Stock . . . | 4,000 | | | | |
| | | | 8,000 | „ | | | 3,000 | 1,000 | 420 | 580 |
| April 1 | To Stock . . . | 4,000 | | June 30 | By Sales . . . | 5,250 | | | | |
| June 30 | „ Purchases . | 2,150 | | „ | „ Stock . . . | 2,050 | | | | |
| | | | 7,150 | „ | | | 8,200 | 1,050 | 504 | 546 |
| July 1 | To Stock . . . | 2,950 | | Sept. 30 | By Sales . . . | 6,800 | | | | |
| Sept. 30 | „ Purchases . | 6,200 | | „ | „ Stock . . . | 3,728 | | | | |
| | | | 9,240 | „ | | | 10,618 | 1,378 | 634 | 744 |
| Oct. 1 | To Stock . . . | 3,728 | | Dec. 31 | By Sales . . . | 6,985 | | | | |
| Dec. 31 | „ Purchases . | 5,450 | | „ | „ Stock . . . | 3,990 | | | | |
| | | | 9,578 | | | | 10,975 | 1,397 | 647 | 750 |
| | Total for Year | | 33,968 | | Totals for Year | | 38,793 | 4,825 | 2,206 | 2,620 |

* The gross profit is the difference between the Dr. and Cr. totals.

The aggregate gross profit for the four quarters, as well as the net profit, is, of course, the actual profit earned for the year. The first three quarters are estimated, but that does not affect the final totals, which are adjusted in the last quarter when the stock is the *ascertained* actual stock and not an estimate, as in the previous quarters.

The practical value of these statistical records is very great. If the estimated stock shows a tendency month by month to increase, then sales are not keeping pace with the buying.

It is possible to strangle, or handicap, a business with too much detail in so-called organisation. Where statements or records are not likely to be

of real service or provide helpful data to the management, they are simply a waste of time. Statistical returns cannot be intelligently considered by the Management unless they are presented in an orderly way, free from extraneous figures that have no bearing on the exact problem. The story that every statistical statement has to tell should be easily read; its definite significance should be without doubt.

On the other hand, the absence of some organised system of providing statements, returns and summaries in large businesses is a thing to be deplored.

There should be in every manufacturing business a sound system of estimating and cost-keeping; and

books for recording the receipt and the issue of stores. In every wholesale business or retail store there should be a system or ready method of estimating from time to time such things as the fluctuations in stocks; summaries of monthly purchases and sales. In this way only can a manager keep his hand on the pulse of the business; he knows whether the sales keep pace with the buying or whether buying is outrunning the sales. And with interim trading accounts at his elbow he can tell the trend of the business. Some further methods of organisation and statistical summaries, pertaining more particularly to manufacturing concerns, are given in the chapter dealing with Factory Organisation.

Watching Accounts

In any business the risk of bad debts is considerable, and care should be taken to limit these losses as much as possible. Before any account is opened, it is desirable that a reference form should be made out, containing full details of the firm, the maximum amount of credit, discounts and terms of settlement, and in the folder should be placed any references that are obtained. The limit fixed should be entered at the top of the account in the ledger, and if it should be exceeded the principal should be notified, so that the agreed limit of credit can be extended, or the account reduced.

It is essential to follow up carefully the collection of all accounts rendered, and a card index for this purpose is useful. On the card the date and amount of the account rendered should be entered, and details of any letters or pressure that has been applied to the customer and dates of payment. When the account is paid, the card should be transferred to the "dead" drawer until the next statement is issued. By this means the principal can easily run through the cards of accounts which have not been paid, and see at a glance the pressure that has been brought to bear and the past

record of the customer, and thus know what steps to take.

Time Checking

The checking of the time of entry and departure of the workpeople should be carefully done. The older method of numbers taken from a board and entered in a book by the timekeeper is less satisfactory than the use of time clocks, by which each worker punches his time of entering or leaving the factory on a card or sheet.

In one type of machine a card is used, measuring about 8 inches by 3 inches, which is dropped into a slot in the machine, which automatically rises day by day, and separate columns show overtime, special mealtimes, etc.

The employee can thus see for himself that his time is correctly recorded, and at the end of the week the overtime and lost time are calculated from the card and entered in the wages book. In another form of time clock, the actual sheet of the wages book is placed round a drum, and the times are punched by the employee on a line opposite his name. The wages book thus contains the actual times of entering and leaving, as well as the name, wage rate, details of deductions, etc.

It is essential that steps should be taken to prevent fraud in making up the wages book, and it is desirable that no one person should control the time-keeping, making up the book and paying the wages. If time clocks, as suggested above, be used, the wages clerk should make up the wages book, a second person count the money into the pay envelopes and a third person pay the wages to the actual employees. By this means there is much less chance of collusion and defalcation, than when the work is done by one or even two persons.

Prevention of Irregularities and Fraud

The number of persons who handle cash should be as few as possible, as the temptation to theft is greatest when cash or negotiable securities are handled, and it is the duty of

every employer to see that as little temptation as possible is put in the way of any individual. There should be a system of internal checks against the commission of irregularities, wherever it is possible.

As an auditor says, "These checks are so necessary, and yet so simple, that the wonder is that all employers do not for themselves realise their importance. That they do not, however, is evidenced by the instances one comes across of an office boy manipulating the petty cash, of a wages clerk creating dummy workers, of a book-keeper-cashier making fictitious entries, of a cashier embezzling sums over a considerable period, of a store-keeper becoming a store-taker."

Fidelity guarantee policies are desirable for all who hold responsible positions. There is no difficulty in arranging with an insurance company for a fidelity guarantee policy, and it is to be preferred to any form of private personal surety. The employer must, however, use all reasonable care, for the general principles that apply to other forms of insurance apply to guarantee insurance. There must be good faith and there must not be any culpable negligence.

The person in charge of the cash

should never be in charge of any trade ledger; to prevent collusion, clerks in charge of ledgers should be changed about frequently, so that any irregularity will not remain long undetected.

A clerk who makes up the wages book should have no hand in making up and paying the wages. A clerk who keeps the purchases ledger should have no concern with passing the accounts and making payment of them. The cash and securities held by a cashier should be checked by the auditor at irregular intervals. A similar system should be applied to the checking of valuable warehouse stocks and materials.

It is part of an auditor's duty also to verify the existence of all investments, stocks and securities, which, as a means of safety, should be in the custody of a bank. The verification of bank balances and the existence of bills of exchange will be done regularly as a matter of course. As a rule, the bank balance shown by the Cash Book will not be the same as that shown by the Bank Pass Book, since many issued cheques may not have been presented at any given date. A Reconciliation Statement should be prepared on the following lines :

| | £ | s. | d. |
|------------------------------------|-------|----|----|
| Balance as per Pass Book | 6450 | | 0 |
| Less Cheques outstanding : | | | |
| Jan. 5, W. Scott | £ | s. | d. |
| " 21, B. Hewit | 30 | 6 | 0 |
| " 24, J. Finlay | 141 | 2 | 3 |
| | 115 | 1 | 10 |
| | 286 | 10 | 1 |
| | £6163 | 11 | 5 |
| Add Lodgments not credited : | | | |
| Jan. 9, B/Ex No. 61 | £ | s. | d. |
| " 30, Various Cheques | 150 | 0 | 0 |
| | 62 | 4 | 0 |
| | 212 | 4 | 0 |
| Balance as per Cash Book | £6375 | 15 | 5 |

Part of an auditor's duty should be the detection of frauds; it should be his duty also to safeguard all irregularities by seeing that the book-keeping systems, and the organisation system generally, are such as to leave the fewest loopholes anywhere. This applies also to the verification

of all the information presented to him for the construction of the final profit and loss account and balance sheet. A deliberately untrue statement of profits is fraud, and, unfortunately, there have been cases where profits have been shown with the purpose of concealing defalcations.

There ought to be a very close system of inspection of stock sheets at the end of the financial year; an over-valuation of stocks on the part of a departmental manager can put quite a different complexion on the trading results of his department, and, consequently, on the final profit and loss account itself.

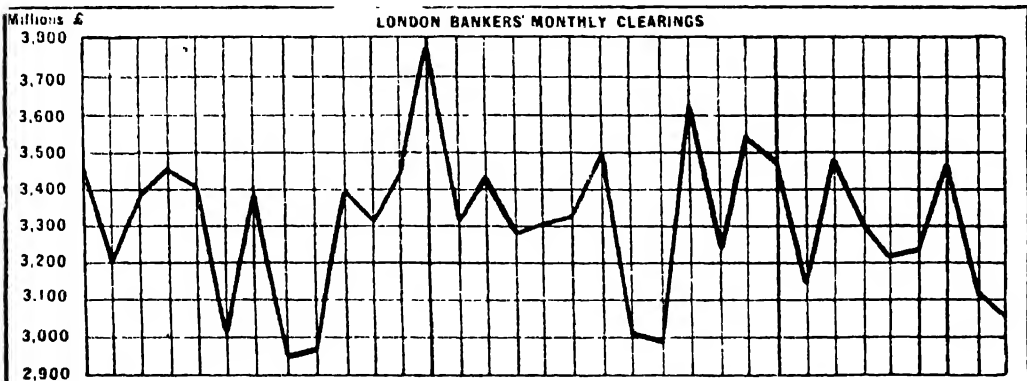
IV

GRAPHS, CHARTS AND CARD INDEXES

The use of graphs and charts is always to be recommended. The trend of sales, expenses and so on is visualised in a much more striking and dramatic way in graphic form than by looking down a long array

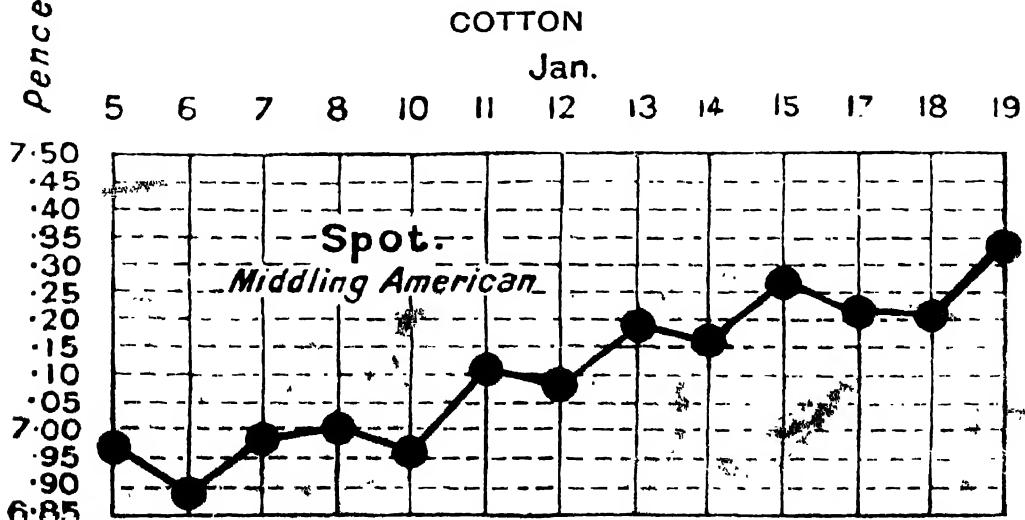
of comparative figures. The facts are taken in at a glance. Anyone in the habit of using such charts would not readily dispense with them. They can be made to tell a story in the shortest and most vivid way, especially if accompanied by useful notes indicating the reason for unusual fluctuation in sales, expenses or whatever it may be. The charts on the accompanying folder, for example, shows the circulation of a monthly magazine and a weekly newspaper over a period of years. In actual practice explanatory notes indicate the results of special campaigns.

Here is another chart showing the trend of trade and finance as indicated by the monthly Clearing House figures of the London Banks.



In the following chart (taken by permission from "*The Times Financial and Engineering Supplement*") we

have in diagrammatic form the fluctuations in the daily price of cotton on the Liverpool market.



There are certain classes of expenses, advertising, for example, over which it is necessary to exercise continual control in order to see that the expense is not out of keeping with the results obtained. A chart on the folder herewith illustrates how such expenditure stands the test, and the profitable limits of advertising.

Advertisement Checking System

A well-organised advertising department will have a proper checking system for all advertisements placed. A form of Checking Journal is shown on page 176. The following two forms are given as illustrations of forms used for other purposes.

THE NEW CENTURY ADVERTISING AGENCY

ADVERTISEMENT COPY CHART

Client. RONUK.

| Paper. | January. | | | | February. | | | |
|-----------------------|----------|-------------------------|---------------|-------------------------|-------------------------|--------------|------------|-------------------------|
| | 7 | 14 | 21 | 28 | 4 | 11 | 18 | 25 |
| <i>Tit-Bits</i> | | 210 $\frac{1}{4}$ p. | | | 215 $\frac{1}{2}$ p. | | | 150 $\frac{1}{8}$ p. |
| <i>London Opinion</i> | | | | 168 $\frac{1}{8}$ p. | | | 63 1 p. | |
| <i>Country Life</i> | | | 210 7" D/c | | | 63 8" S/c | | |
| <i>Humorist</i> | | | | | | | | |
| <i>Punch</i> | | | | | | | | |
| <i>Bystander</i> | | | | | | | | |
| | | | | | | | | |

Extensive advertisers change their copy frequently, ringing the changes on their advertisements in particular papers.

The above Chart is used as a record of the particular "copy" supplied to the various papers. The chart begins with the placing of the order. The figures above the space are the number of the particular form of "copy" used. The form can be adapted to suit the advertiser; for example, it may be necessary to have a chart for each medium used.

ADVERTISEMENT RESULTS

| Publication. | Cost. | No. of Enquiries. | Value of Sales. | % of Cost on Sales. |
|--------------|-------|-------------------|-----------------|---------------------|
| A. | £15 | 50 | £200 | 7½% |
| B. | £30 | 80 | £500 | 4·8% |
| C. | £25 | 30 | £400 | 7½% |
| D. | £15 | 25 | £100 | 15 % |

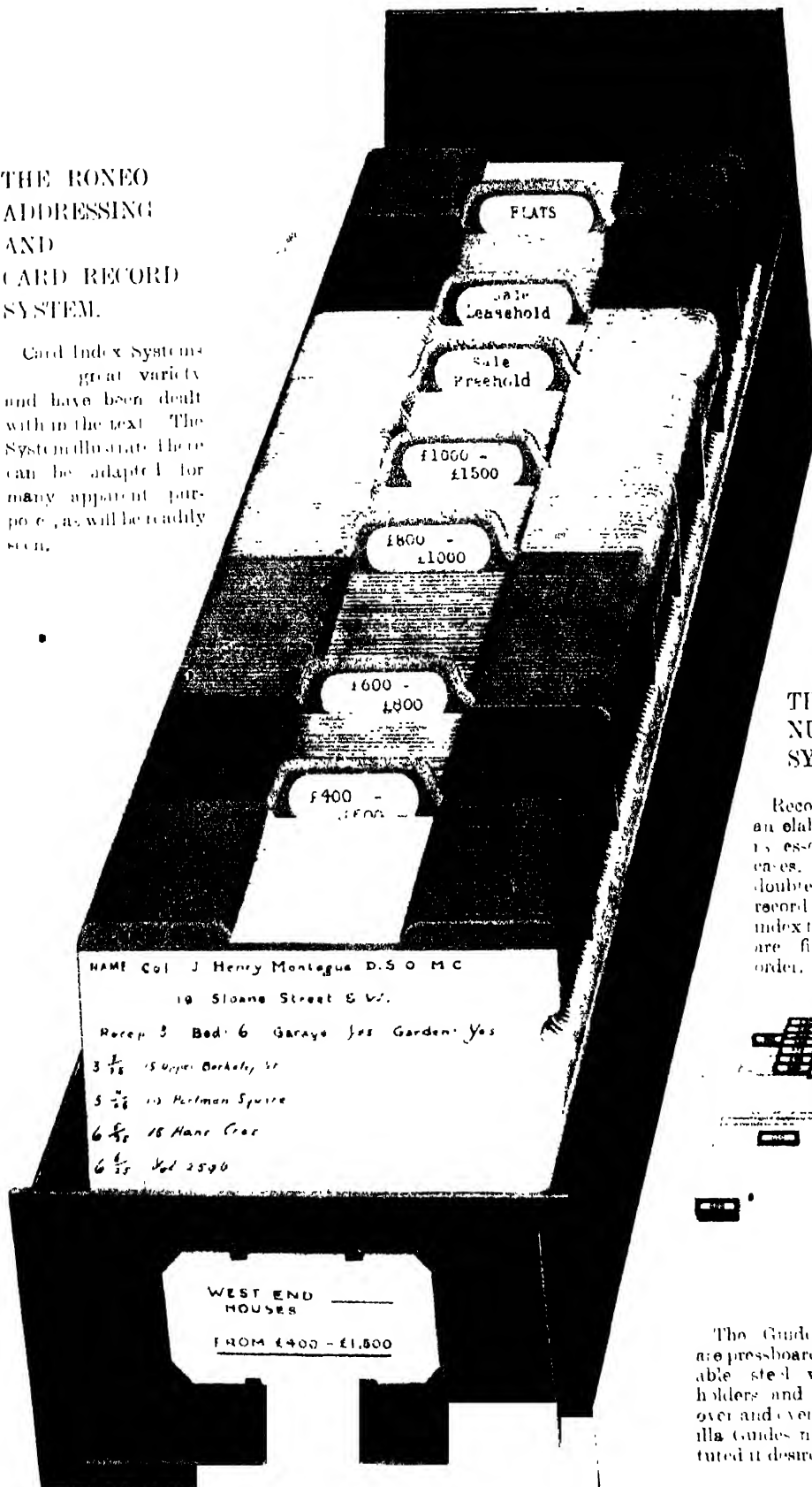
Where it is possible to trace direct results of advertising, a form something like that given below indicates the profitableness of the various media used. It can be used with advantage when advertisements are keyed.

Net Result.....per cent.

[illegible]

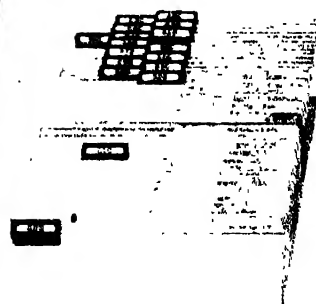
THE RONEO ADDRESSING AND CARD RECORD SYSTEM.

Card Index Systems of great variety and have been dealt with in the text. The System illustrated here can be adapted for many apparent purposes, as will be readily seen.



THE DIRECT NUMBER SYSTEM.

Recommended when an elaborate cross index is essential. In such cases, this system is undoubtedly best. A card record is necessarily a index to the folders, which are filed in numeric order.



The Guides illustrated are pressboard with adjustable steel window label holders and can be used over and over again. Manilla Guides may be substituted if desired.

person; otherwise the cards may be inserted wrongly, and much time may be lost in searching for one of them.

Some firms, by means of figures and other symbols, keep full records of their business transactions on a card index. A firm that gets its orders through the post, or by means of canvassers, can do this. The cards can record the dates when certain advertising matter was sent out, the enquiries received, the sales effected and the dates of payment; it is especially useful when goods are paid for on the instalment system. It is possible, therefore, by turning up any individual card, to see exactly what business, if any, has been done with Mr. A. or Mr. B.

In his useful little book, "Office Organisation for Printers," Mr. W. Howard Hazell deals with the point mentioned above. He says: "The

possibilities of labour-saving are many, and in various ways the new methods have very great advantages. It should be borne in mind, however, that card indexes and loose-leaf methods should only be handled by a trained staff, as a card wrongly filed amongst thousands of others might cause a serious error and at least a considerable loss of time in tracing the misplaced card." He continues: "If, however, ordinary precautions are observed and the care of card indexes and loose-leaf and filing methods is placed in the hands of certain responsible persons, the risk of error practically disappears."

Mr. Hazell gives the following example to show how a card index can be used in a printer's office for the purpose of keeping a grip on accounts, especially those that are overdue.

Name Thomas Brown. Traveller Jackson,
Address 33, Broughton Street. Limit £50
London. Terms Net Monthly

| Date. | Arrears. | | | Total. | | | Remarks. | Payments. | | | | | | | | |
|--------|----------|----|---|--------|----|---|--|-----------|--------|----|---|---------|----|-------|---|--|
| | | | | | | | | Date. | | | £ | s. | d. | Date. | | |
| 1/1/18 | 10 | 15 | 0 | 22 | 5 | 6 | No. 1, 25/2/18 No. 2, 27/3/18 Special, 10/4/18 Solicitor, 25/4/18 | 12/1/18 | 5 | 15 | 0 | 22/1/18 | 5 | 0 | 0 | |
| 5/2/18 | 11 | 10 | 6 | 45 | 10 | 0 | | | | | | | | | | |
| 4/3/18 | 45 | 10 | 0 | 78 | 9 | 0 | | | 2/4/18 | 15 | 0 | 0 | | | | |
| | | | | | | | | 15/4/18 | 10 | 0 | 0 | | | | | |

The method of using the cards of this kind is as follows. "The 'date' is that of rendering the account. 'Arrears' is the amount brought forward from the previous period and is included in the total. Under 'Remarks' should be entered the date of any reminder sent to the customer, and a number could show the kind of reminder. Thus, No. 1 could be a

printed slip attached to a copy of the statement asking for a settlement; No. 2 a letter asking for the account to be paid; No. 3 a request for payment by a given date, and No. 4 a notice that the account will be handed to the solicitors for collection unless payment is made within four days. If payments on account are received they should be entered on the card."

The writer continues: "The cards should be filed alphabetically with suitable guide cards, and when an account is paid it should be transferred to the 'dead' drawer and can be used again when the next account is rendered. It is an advantage to print along the top of the card the figures 1 to 31 to represent the days of the month. If a reminder is sent, a wire clip can be slipped on the card on the date the customer ought to be reminded again. All the cards that have to be dealt with are thus indicated each day and there is no chance of any being overlooked."

V

OFFICE ORGANISATION

The developments in labour-aiding machinery for use in the factory have had their counterpart in the office, and in recent years there has been a complete revolution in office methods.

Office costs are a big item in overhead charges; and it is of more importance than is often realised to instal modern methods of organisation and modern office machinery that not only reduces costs but increases efficiency. In large offices it is no longer necessary for clerks to add long columns of figures; the mechanical adding and calculating machines have done away with that, and can do the work quicker and more accurately than any clerk can. There are machines also in use that will post and balance ledgers automatically; machines that will summarise sales, cash receipts and so on, making accurate information available daily and many others.

There are numerous other clever appliances; machines which secure increased speed and accuracy in addressing envelopes; other machines, officially authorised, that stamp on envelopes not only the proper "frank" value, but the postmark, and any other matter that may be thought desirable. Other machines fill in numbers, names, rates of pay and

wages payable on wage sheets; still other mechanical devices are used to fill up cheques, dividend warrants and other documents that take up so much of a clerk's time. Even coins can be sorted out and counted by machinery.

Most of these machines designed for office efficiency have long passed the stage of novelty and experiment; distinguished accountants and auditors recommend the use of adding and calculating machines and similar devices. On the point of efficiency, one of these auditors says:—

"It is by no means necessary to be able to keep an office machine fully employed to make it worth while to instal it; but, of course, the more fully occupied it is, the more valuable it will be. In this connection it may be mentioned that, as a rule, the tendency is for new uses to be found for machines after they have been installed, and for their working hours to increase as time goes on. Most office machines have a working life considerably in excess of five years; but, assuming for the sake of safety that five years is a reasonable limit, it would only be necessary for a machine costing £100 to effect a saving of 10s. a week in order to pay its way. With office salaries at their present figure, one cannot get very much service for 10s. per week.

"In the majority of offices, however, space is sufficiently valuable to make it misleading to attempt to measure the cost of office work in terms of salaries alone. Rent, rates, taxes, etc. distributed over the office staff may add anything from 30 per cent. to 100 per cent. to the cost of office labour, and any appreciable increase in the office staff often involves the taking and equipping of new office premises. It is not too much to say that, more often than not, any increase in the office staff, or the office premises, might have been avoided altogether with the introduction of suitable office machinery

costing little more than new office premises would cost to furnish."

The old-fashioned bound ledger has been replaced by a loose-leaf ledger or a card ledger. The advantage of either kind is that no index is necessary, as the accounts, leaves or cards are filed alphabetically; the ledger is never full, as additional leaves or cards can be added, and the old and troublesome task of transferring all accounts to a new ledger when the old one was filled is obviated.

The accounts or whole ledgers can be grouped to correspond with the daybooks or a particular class of business, or the export trade, or the business done by a particular traveller. It is easy by this method to refer to any account and to balance the ledgers and ascertain the amount of trade in the different sections.

"Billing" Machines

Much time can be saved by manifolding the invoices into the daybook. This can be done by "billing" machines, which are typewriters that travel over the pages of any daybook, and the invoice is manifolded at the same time. An alternative method is to have a loose leaf daybook, and manifold the invoice and daybook on an ordinary typewriting machine. On either machine small adding attachments can be placed which will add the total of the details of the invoice in an inner column; a separate machine will add the totals of the outer column, thus giving the total of the daybook.

Manifolding can be used in many ways to save writing, and to ensure that all instructions and details are identical. For example, in businesses where orders are received for delivery from stock, by one typewriting or writing, various forms can be manifolded, such as the priced invoice, delivery note to obtain receipt, instructions to the stores department to issue the goods, instructions to the packing department giving routes,

etc., the final copy being the page used as the daybook.

Manifolding

It is not necessary to detail the various devices employed to multiply documents such as circular letters, price lists and so forth. Amongst such machines may be mentioned the Hectograph (not so common as it once was), the Mimeograph (largely used for circularising customers), the Rotary Multiplier (which may be worked by hand or by a small electric motor), and small printing machines.

There are various forms of calculating machines which are suitable for use in small or large businesses. Most of them are worked like a typewriter and the simplest kinds show the result of addition, multiplication, subtraction or division in a row of figures on the machine. Something is said about these on later pages.

There are machines, such as the Dictaphone or Ediphone, which are useful for dictating correspondence, which is recorded on wax cylinders. The advantage of these machines is that the instrument is always at the elbow of the person using it to dictate letters, and can be used while the typist is absent or typing correspondence; thus considerable time is saved.

VI

THE HANDLING OF CORRESPONDENCE

In a small firm the handling of correspondence offers no difficulties, since all important correspondence will come under the eye of the principals. In a large concern certain definite rules will be laid down. The opening of letters, except those of a private nature, is usually left to the correspondence staff with sufficient intelligence to sort out the mail and distribute the correspondence to the heads of the various departments concerned. The Managing Director, or General Manager, with faith in the

heads of departments, will leave them a free hand to deal with all the usual correspondence that concerns their departments. Consultations will take place over anything of major importance, but apart from that the correspondence is part of the routine of the various departments.

The utility of one special correspondence department is a matter of circumstances. If departments are not sufficiently large to employ on their own account a certain number of shorthand clerks and typists, one general correspondence department will be more economical and efficient, as the work can be divided among the staff.

Incoming letters should be stamped with the date received, a rubber stamp being used for this purpose. These stamps are provided with mechanism for altering the date each morning. The various managers will dictate answers to their letters during the day to the typists, and a copy of each letter is retained and attached to the rest of the correspondence, which should be returned for filing to the person responsible.

The secretary of the chief manager, or of a departmental manager, fills an important post in facilitating the work of a busy man. When occasion arises, all previous correspondence, documents, quotations, estimates, or whatever it may be, that relate to a subject in hand, should be quickly available.

Mechanical Devices

The handling of correspondence, especially in large offices where letters are numbered by the thousand, is made easier by the use of one or other of the various mechanical contrivances that are on the market. Among these is an instrument for opening letters, which, by slitting the envelopes very rapidly along the top, saves considerable time. A stamping machine is desirable so that the postal clerk can stamp on every envelope

the time of its arrival and any other particulars that are desirable.

A good deal of time and trouble is also saved by the use of franking machines, although many firms prefer to use the adhesive stamp. Authorised by the Postmaster-General, these do away with the tiring business of stamping each letter with an adhesive stamp. Instead, the letters are passed rapidly through the machine, each being stamped before it emerges from it. There are several of these machines on the market. One, obtainable with three or six different values, is worked by hand or electricity, and is capable of stamping up to 20,000 letters a day.

The machine is worked as follows. Its meter, which is of aluminium and only weighs a few pounds, is taken to a post office with a cheque for the required postage. This can be for any amount from £1 upwards. An official will then set the meter for the amount paid and seal it. The user can thereupon print off stamps until the amount paid is exhausted, when the machine will automatically lock, ready for a further setting. The value of every impression made by it is automatically recorded on the totaliser and the credit meter shows clearly the balance of stamps still available. The machine will also impress upon the envelopes the date and other details of the ordinary postmark.

The Art of Filing

The modern office must have a good filing system. Old haphazard methods are apt to survive as part of the routine and remain unchanged; different people in different departments, each with their own methods, often "doing their work in the hardest and slowest way, as untaught workers invariably do." Not only is this necessary for correspondence, but also for papers and records of all kinds which, in a sense, are the life blood of modern business. A clumsy or inadequate system may easily cost thousands of pounds in a year, while

an equal sum can be saved by the installation of a suitable one.

What are the essentials of a good filing system? In the first place it must be simple. It must be capable of being understood by every member of the staff, which means that it must be such that any worker of average brain power will be able to grasp its essentials without undue difficulty and delay. In the second place it must be capable of application to the particular business using it.

Businesses vary greatly in regard to detail and a system suitable for one business is not necessarily the best for another. The variety of the documents used varies. Transactions are sometimes carried to their conclusion in a single department; sometimes passed through several. Some businesses have an enormous number of small transactions, while others have a few large ones. Many other differences could be noted, but these show that care in selecting a suitable system is very desirable.

Thirdly the system chosen must be adaptive, and capable of expansion. Every progressive business grows and provision should be made for such growth. The growth may be an increase in the volume of business done in the existing departments, or it may be, as is often the case, the opening of fresh departments for the sale of articles not hitherto stocked. Finally those responsible for the installation of a filing system should take care that the material filed can be consulted without any undue expenditure of time.

The use of folders in which to keep correspondence and other records is now very general in business houses, so the first step is to provide a folder for each correspondent or customer and to mark it clearly with his name. When the letters or papers are finished with, they should be placed in the folder in order of date. Copies of letters sent out should be attached to the incoming letters,

so that a glance at the contents of a folder will tell the whole story of the correspondence with a particular customer. The folders may be arranged either on the horizontal or on the vertical system and, further, they may be kept in alphabetical order according to the names of the correspondents or in some other way. Some firms, instead of folders, use expanding cases with lettered pockets into which the documents can be dropped.

Another method is to use boxes or drawers, with index sheets under which the letters are placed, a spring clip keeping them in position. For greater security some systems in use provide that the letters shall be pierced with holes in the side or top and placed over upright posts in the filing receptacle.

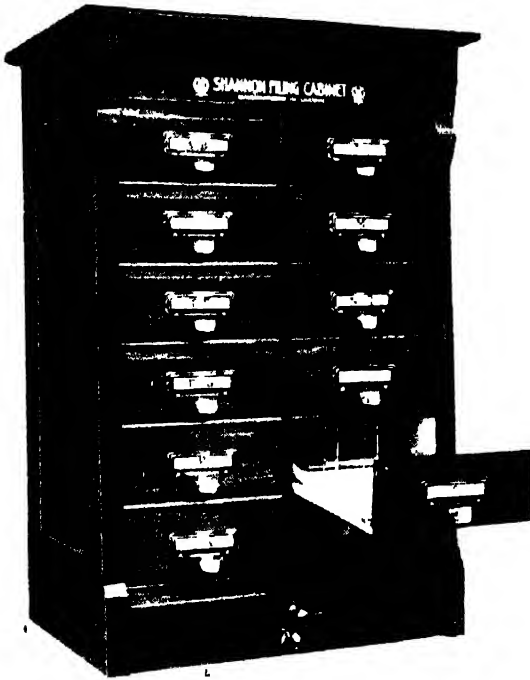
Horizontal and Vertical Systems

Broadly speaking, modern filing systems may be divided into two classes, the horizontal and the vertical. Perhaps the vertical is at the moment the more popular, but the horizontal is not without its advocates. It means the placing of the files or folders, each containing a particular group of letters or papers, flat, either one on top of the other or on trays or shelves. Tabs or labels are supplied to enable each folder to be identified. The files can be placed in cabinets made to hold them and the system meets the conditions laid down above. It is simple and adaptive, and can be made to fit most kinds of business.

The firm of Shannon, Ltd., have a lock arch system suitable for horizontal filing. Every paper is attached to the file, making it difficult, if not impossible, to lose one. First of all the paper is perforated by a machine supplied for the purpose, and it can then be inserted in its alphabetical position in the file. Each file is supplied with an alphabetical index so that the position of any paper can be quickly located. When a file

FILING CABINETS.

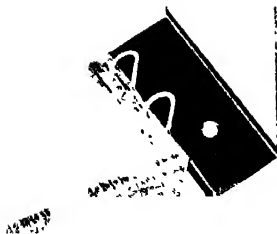
These are of great variety. The illustrations show two of the most serviceable in use.



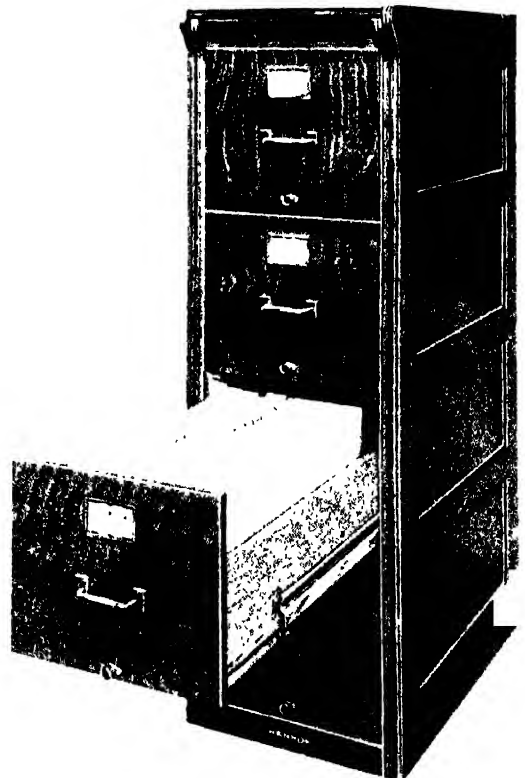
A Shannon Lock-arch Cabinet of twelve drawers.



Ready to Transfer.
(Note transfer wire in Arch upright.)



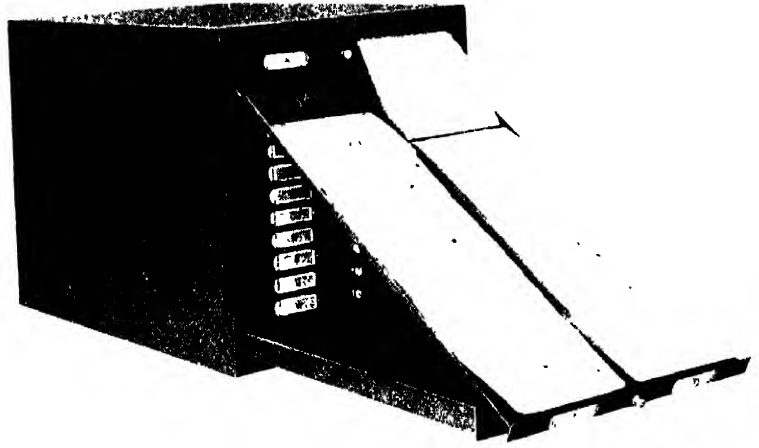
Shannon Binding Case (Open.)



A 4-drawer Vertical Filing Cabinet

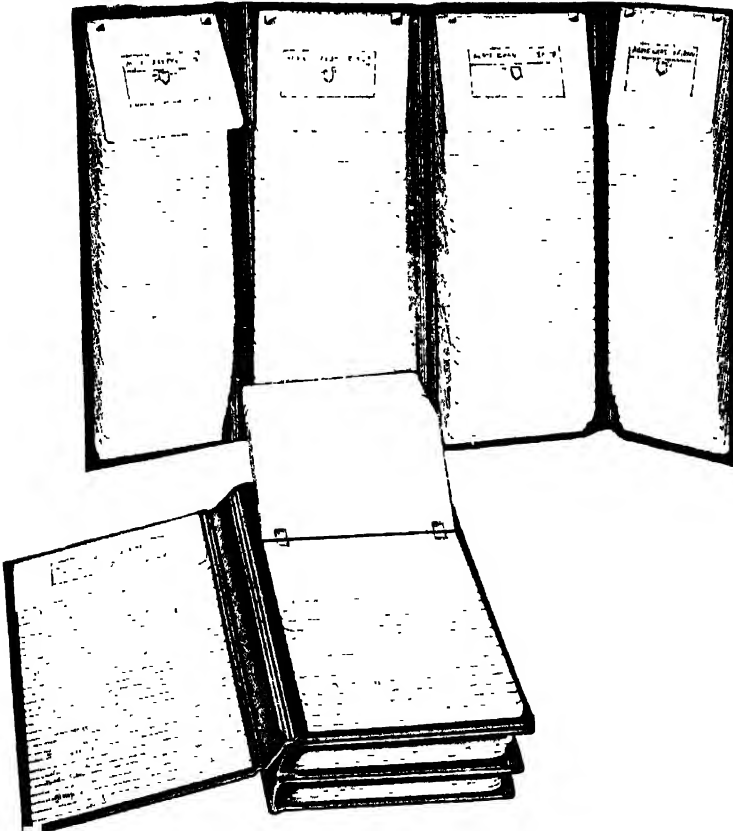
THE ACME VISIBLE RECORD TWELVE-TRAY DUPLEX CABINET

Another indexed card filing system which is gaining in popularity is the Acme Visible Record System. In this system the cards are contained in shallow metal trays six or twelve trays holding one or two rows of cards to a unit. The cards lie flat and enable records to be kept which can be entered and referred to with the minimum of time and effort. They are seen in the accompanying illustration.



These filing cabinets are of unit construction three units, interchangeable, so that a cabinet may be made to meet the growth of the records required.

THE ACME VISIBLE CARD BOOK



For those who wish to keep smaller records, from 100 cards up, a visible Card Book can be used. These books are easily placed on the desk and provide an efficient means of making professional or personal records instantly available. (The accompanying illustration shows one of these Card Books.)

is full the papers should be transferred to a binding case, which also has an alphabetical index, the necessary dates being marked on the back thereof. One of the good points of this system is that a letter or paper can be consulted without removing it from the file. This system is perhaps specially suitable for business in which the records are of more than ordinary value. Any extra cost incurred in its installation and working will be more than repaid by the extra security afforded.

Vertical filing is the placing of the files or folders containing the letters or papers upright in drawers. They stand therein side by side with tabs or guides to enable the one wanted to be readily found. The usual plan is to have a separate folder for each correspondent or subject, unless they are very unimportant when a miscellaneous one will serve for several.

The Library Bureau has a system which goes further than this. They supply what are called active folders for correspondents or subjects in which there is a considerable amount of matter, and other folders which contain the papers from inactive correspondents or about an inactive subject, the two being easily distinguishable. In addition they supply with their cabinets an elaborate system of guide cards.

Alphabetic or Numeric Arrangement

When a decision has been made on this point the second problem requires solution. In what order are the folders to be filed? Is it to be in strict alphabetical order, or is a numerical order to be used, or a combination of the two? Moreover, is the filing to be by name or subject? One point cannot be stressed too much. In making a decision the main, perhaps the only, point is to find the wanted letter or paper as quickly as possible.

The alphabetical system of filing, whether by name or subject, that is Jones, John & Co. or Jute, is un-

doubtedly the most convenient. The alphabet is familiar to everyone and without a thought he or she knows that C follows B, and that R is later than A. It is not, perhaps, perfect, but it is difficult to imagine a time when it will be entirely supplanted. It remains, therefore, at the base of all filing systems, although it is used with success in combination with numbers. Most firms will continue to use it and will file their correspondence and records under names, although some will find a system of filing under subjects desirable in certain cases.

In the numerical system the material is filled by consecutive numbers which are arbitrarily assigned to name or subject. It is an indirect method which necessitates the use of a card index or chart and is recommended where extensive cross referencing is needed, or a permanent record of names or operations is desired.

It is worked as follows. The first folder used is marked 1, the second 2 and so on, this number obviously giving no indication of the name of the correspondent whose papers are filed. This is done by means of a card index, the cards being kept in alphabetical order in drawers. Thus, if the first correspondent is Henry Wagg & Co., their letters and papers are put in a folder marked 1 and the figure 1 is placed on their card in the card index. The drawback to this scheme is that two consultations are necessary before a letter or paper can be found, but its advocates point out that there are compensating advantages. There are too, on the market, systems which are a combination of the alphabetic and the numeric arrangements.

No files should be allowed to become overloaded. If the correspondence is large and of a general nature, there should be a central filing department where the methods of transferring older correspondence to storage files can be systematically done on a definite plan. These should be easy of access, and arranged and labelled

for instant reference. It is also a distinct advantage to file letters received and the replies together; otherwise confusion and much waste of time are involved. If there is considerable correspondence it is worth some expense to employ a capable person who will be in charge and fully informed on all details of the filing system employed. It will be his duty also to see that all "dead" correspondence is cleared out from time to time.

VII

CALCULATING AND OTHER MACHINES

A good deal of assistance can be obtained in the modern office by the use of calculating machines. These are made to-day in great variety and have been brought to an extraordinary degree of efficiency. From a combination of the typewriter and the simplest form of adding machine there have been evolved machines that can perform the many and elaborate details of book-keeping and that can work out, not only fairly simple calculations of pounds, shillings, and pence, but others more intricate.

It is claimed that these machines perform a calculation in about one-tenth of the time taken by a human being of average capacity, and, moreover, that they do it with absolute accuracy. They are used, therefore, for many purposes, not the least important being by the large Banks for making entries in passbooks.

As an example of the uses and possibilities of these machines, we will first take those sold by the Burroughs Adding Machine Co., which does an extensive business almost all over the world, but especially in the United States and Canada, where these aids to business are most widely employed. It should, however, in fairness to other firms, be stated, by way of premise, that this selection does not mean that other machines are not equally satisfactory.

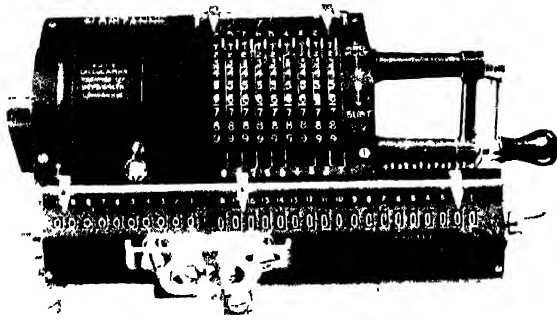
The Burroughs Co. divides its machines into three classes, Adding, Calculating, and Book-keeping, but the same principles are common to all; indeed all are elaborations of the Adding Machine. The Adding and Calculating Machines, in addition to the ordinary arithmetical operations of adding, subtracting, multiplying and dividing, will perform money sums of all kinds, including those connected with the foreign exchanges. The Book-keeping Machines will make out invoices and statements, post the ledgers, and prepare the trial balances and the stock records. For this purpose loose-leaf ledgers or card ledgers are employed. The Burroughs machines are made in various sizes, the smallest having seven columns and the largest seventeen.

The Working Explained

The working of the machines much resembles that of a typewriter. The operator depresses the necessary keys, but this only records the figures; the actual adding is done later. The keys remain depressed until the full operation is finished, thus giving the operator a chance to make any corrections that may be necessary. The printing is done through a typewriter ribbon on the forward motion of the handle. The adding takes place when the handle is released, and this simultaneously restores the keys to their original positions ready for the next operation and registers the total on the adding wheels. This accumulated total is transferred as a printed record by depressing a key marked T (transfer total), and operating the handle while the key is down; at the same time the adding wheels are automatically turned to zero.

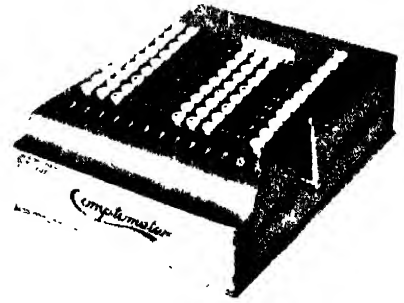
Ciphers and punctuation marks are printed automatically and each key represents an individual value. The 1, for instance, in the unit column of pounds will always print and add 1, while, if it is in the tens column, it will

THE BRITANNIC CALCULATING MACHINE.



This machine is adaptable for all calculations involving multiplication and division and is in many commercial offices, banks, insurance co.

THE COMPTOMETER.



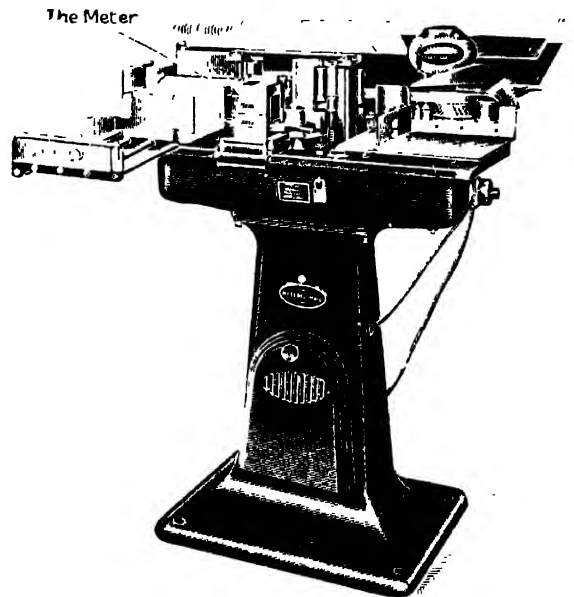
This machine adds, multiplies, divides and subtracts money weights and numbers, and is in use in thousands of offices.

STAMPING LETTERS

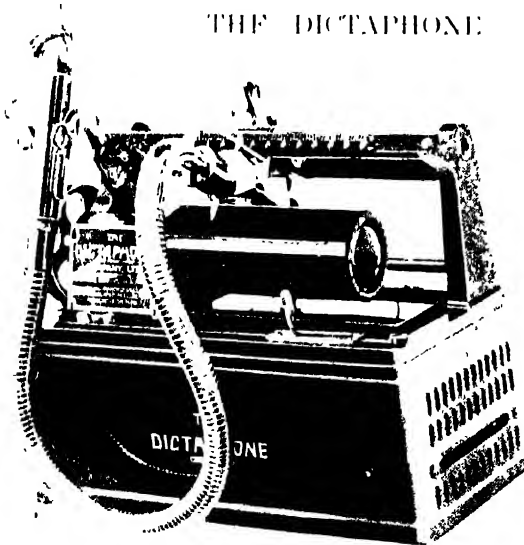
(The Postage Meter Machine.)

The use of these machines is recognized by the Post Office. The "mark" value of the postage date is printed on the envelope. The machine shown here does this at a speed of over 200 per minute.

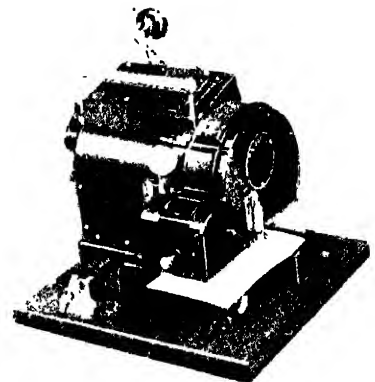
The envelope can be sealed also and the meters record the value of the postage. The use of these labor-saving devices is becoming increasingly common.



THE DICTAPHONE

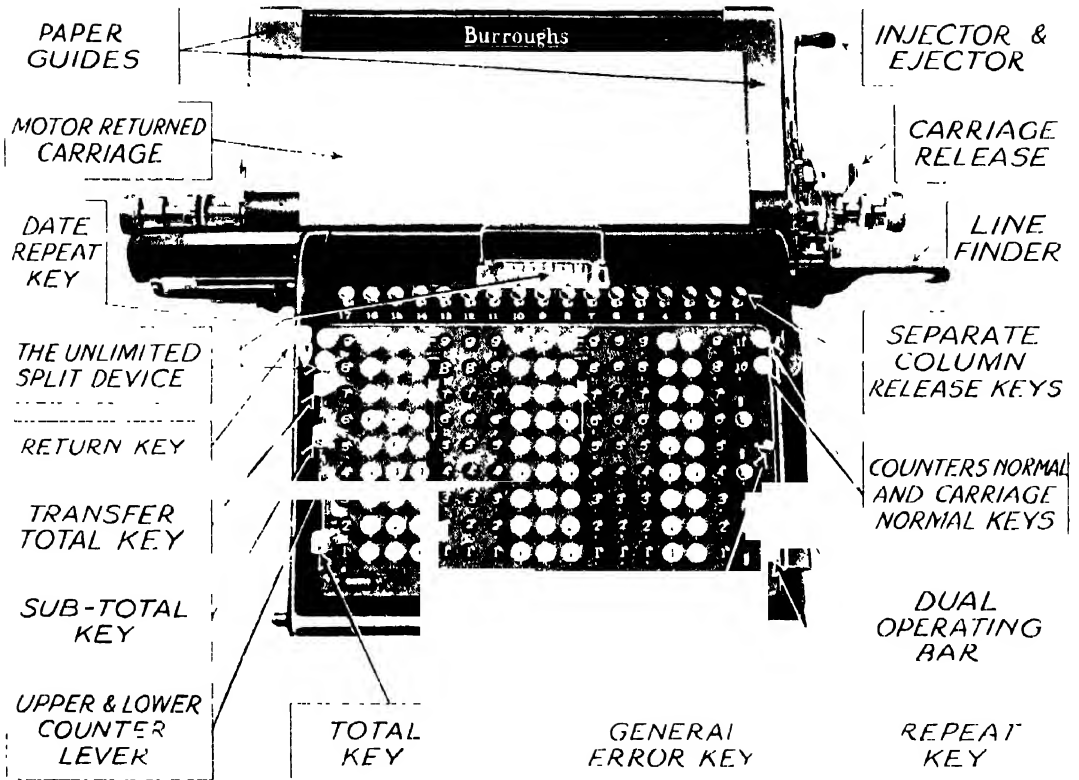


Letters, instructions and memoranda can be dictated to this instrument at any speed, thus dispensing with the shorthand clerk. The typist does her typing direct from the Dictaphone. That it is of invaluable service is evidenced by the popularity this means of conducting business correspondence, etc., enjoys.



THE UNIVERSAL
MIDGET 3 MACHINE
(For Stamping Letters.)

A LEDGER POSTING AND BOOK-KEEPING MACHINE.



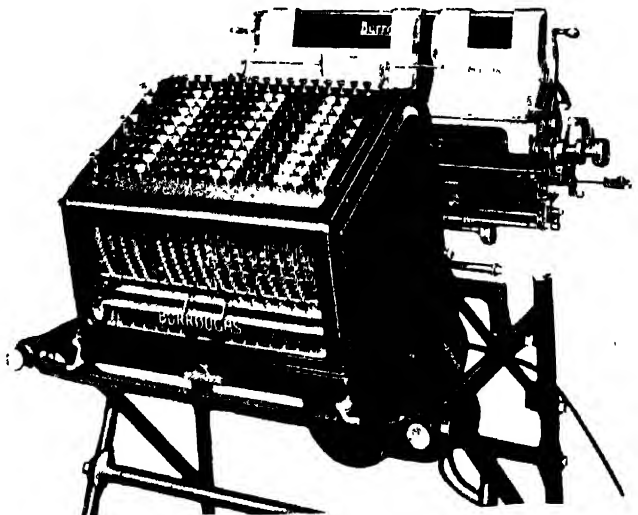
The Burroughs Automatic Book-keeping, Ledger Posting and Statement Machine has been designed to make out the customer's statements in the same operation as the postings are made to the ledger accounts. It also, at the same time, balances the account with a positive proof of the accuracy of the work.

The many automatic features of this machine reduce the possibility of human error to a minimum, saving time and money in posting all kinds of Ledgers, Statements and Stock Records.

ANOTHER CLEVER MACHINE

The Burroughs Duplex Machine, illustrated here, is really two adding machines in one. This machine, in which are incorporated so many automatic features, is especially suitable, among many other uses, for comparing sales and cost analyses, wages sheets, disbursements, and for dividend work. There are over a hundred styles of Burroughs machines available for handling every kind of figuring work in any business, large

Many well-equipped bank, insurance and commercial offices now employ machines of these or similar kinds for all manner of work. They are highly recommended by eminent Accountants and Auditors.



always print and add 10. If a wrong key is depressed in error, the operation of the correct key will prevent the mistake from going through, while, if a number of keys in different columns are set in error, the depressing of the total key will restore them all to their original positions.

If it is necessary to print a total that is to be carried forward to another column, the key marked **ST** (sub-total) is used in conjunction with the handle. This retains the amount in the adding wheels and enables it to be printed in any desired position before further items are recorded. A non-add key is also provided, as in some models is a non-print key. The former, when set, enables figures to be recorded in any later total. The latter makes it possible to add without listing. The repeat key, sometimes called the multiplying key, performs the work of multiplying.

These machines are also made with two sets of adding wheels. By using them both it is possible to collect together several groups of figures and to give group totals and a grand total. The operator can print on any part of the paper by merely moving the carriage of the machine, and he can use carbon paper for any extra copies that may

be required, just as with a typewriter.

The larger machines are fitted with what is known as the "unlimited split device." It is rarely that in a machine say of 13 or more columns all are required for pounds, shillings, and pence. Provision is therefore made so that certain columns can be used for numbers or quantities. To enable this to be done the keyboard is divided into sections or "splits," and the number of these can be varied at will. Similarly, columns can be temporarily put out of use by the same controlling device when they are not required.

Below we give an example of what can be done by using 11 rows of figures, with the duplex or double adding counters and the unlimited split device. The adding in columns 2, 3, and 4 is done on one counter and columns 9, 10, and 11 on the other. Control rollers, as they are called, are brought into operation to stop for the time being adding in columns 5, 6, 7, and 8. These must be repeated into the machine in the upper counter after the totals of the other columns have been printed. They are then totalled and the following result appears:

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|-----------|------------------------|-------------|-------------|------|-----------------------|-------------|-------------------------------|-------------------------|-------------|-----------|
| Check No. | STATE INSURANCE | | Gross Wages | Bank | DEDUCTIONS FROM WAGES | | | STATE INSURANCE | | Net Wages |
| | Company's Contribution | Amount paid | | | Trade Union | Amalg. Club | National Savings Certificates | Employer's Contribution | Amount paid | |
| 278 | 5 | 10 | 4 0 5 | | 6 | 2 | 2 6 | 5 | 9 | 316 1 |
| 279 | 5 | 10 | 317 11 | 2 6 | 6 | 2 | | 5 | 9 | 313 7 |
| 280 | 5 | 10 | 310 9 | | 6 | 2 | | 5 | 9 | 316 11 |
| 281 | 5 | 10 | 416 0 | 2 6 | | 2 | | 5 | 9 | 412 2 |
| 282 | 5 | 10 | 4 1 0 | | 6 | 2 | 2 6 | 5 | 9 | 316 8 |
| 283 | 5 | 10 | 3 6 7 | | 6 | 2 | | 5 | 9 | 3 4 9 |
| | 30 | 60 | 24 0 8 | 5 0 | 30 | 12 | 5 0 | 30 | 54 | 25 0 2 |

REDUCED FACSIMILE OF WEEKLY WAGES SHEET

The duplex feature, to which reference has been made, enables two

calculations to be carried out at once. The two calculations can be, for

instance, the taking out of credit and debit balances from a ledger for the purpose of a trial balance.

Here the two adding counters do not function together, although they can do so if required, but are quite separate. Debits are recorded in the upper counter, and when a credit appears the operator moves the duplex lever to the lower position so that the credits can be accumulated separately. All the figures printed while the level is in the lower position bear a distinguishing symbol against them, so that it can easily be seen which are credit figures and which are debit figures. When all the debits and credits have been taken in their respective counters, the total of each is printed and the *totals* can be recognised by symbols, as shown below.

| £ | s. | d. | |
|-----|----|----|--------------------------|
| 23 | 5 | 6 | |
| 12 | 6 | 7 | |
| 4 | 8 | 9 | — |
| 32 | 6 | 10 | |
| 27 | 8 | 8 | |
| 55 | 10 | 6 | |
| 34 | 6 | 8 | — |
| 123 | 5 | 6 | |
| 2 | 10 | 6 | — |
| 18 | 8 | 4 | |
| 16 | 8 | 8 | |
| 1 | 3 | 4 | — |
| 13 | 10 | 8 | |
| 51 | 4 | 10 | |
| 17 | 10 | 10 | |
| 3 | 3 | | — |
| 32 | 6 | 3 | |
| 15 | 7 | 4 | |
| 17 | 10 | 10 | |
| 37 | 8 | 11 | — |
| 143 | 6 | 8 | |
| 13 | 5 | 2 | |
| 1 | 8 | 10 | |
| 26 | 7 | 1 | — |
| 24 | 6 | 1 | |
| 2 | 3 | 8 | |
| 641 | 1 | 9 | * Total Debit Balances. |
| 106 | 8 | 6 | * Total Credit Balances. |

Crank-operated Machines

Other calculating machines are operated by cranks. These are worked by setting small levers or keys representing one factor of the problem and turning the crank the necessary

number of times for the other factor. A travelling carriage is moved in order to accommodate the various steps in the solution of a problem. The crank can be worked by hand or by electricity.

A useful type of the crank-operated machine and one much used by large insurance companies is the Arithmometer. Its face is divided into two portions, the lower being called the fixed plate and the upper the slide. In the centre of the fixed plate are slots furnished with markers which are moved to set the numbers on the machine. The crank lever, on the right of the fixed plate, operates the machine and the regulator, on the left, is pushed forward for addition and multiplication and backward for subtraction and division. The slide can be placed in the unit, ten, or hundred position as required, and the calculation wanted can be obtained by turning the crank bar the necessary number of times. The answers are shown in the product and quotient dials on the slide. By means of the effacer on the right either or both sets of dials are brought to zero, the slide being raised during the operation.

As an example of the barrel lever-set type of machine the Britannic may be mentioned, but there are others equally good, notably the Lucid, Muldivo and Triumphator. The Britannic is a small machine, its total weight with the case being only fourteen pounds. To operate it the setting levers are pulled downwards until they are opposite the figures required. The barrel can be moved to the unit, ten, or hundred position as required, and the calculation is performed as in the Arithmometer. The crank-operating handle, which is on the right of the machine, is moved forward for addition and multiplication and backward for subtraction and division. The number of times it must be moved is according to the number by which the figures set are to be multiplied or divided. With the barrel in the first

position five forward turns of the handle multiplies by five, in the second position by 50, and in the third by 500. The machine has an interlocking mechanism which prevents errors.

The Monroe is a machine of the key-set type and is driven by electricity. For addition or multiplication the quantity to be added or multiplied is set on the keyboard. The machine is then operated by the pressure of the bar marked plus (+). One touch of this plus bar adds the quantity into a row of dials, and the bar can be kept depressed until the amount is repeated the required number of times for the multiplication. The multiplier is shown in another row of dials, and there is a check on the calculation, as the amount on the keyboard can only enter the answer dials the number of times shown on the multiplier dials.

To insert tens and hundreds the appropriate multiplier dials are brought opposite the operating point by a carriage shift lever situated on the left front of the machine. Division and subtraction are done by using the bar marked minus (-).

Cash Registers

The cash register is a variant of the adding machine. In addition to those used in shops, these registers are employed in municipal offices to record and total rates due and collected, and in Post Offices to print figures on telegraph forms. There are two main types, the key and the slide. The National may be taken as a specimen of the former and the Gledhill of the latter.

The key type of cash register is operated, as the name suggests, by depressing keys of the required money value so that the amount of the particular transaction is shown. A cash register of the National type is equipped so that it can take care of the takings of several assistants and keep records of all cash sales, credit sales, money received, and money

paid out. The cash drawer cannot be opened for change without leaving a definite record inside the machine. The amount of each assistant's takings can also be added to the total adding counter as the sales are made, while separate drawers keep the cash taken by each assistant apart.

The machine prints, inside the register, not only the amount of each sale, but also the initials of the assistant who made it. This information is also issued to the customer on a printed ticket, which bears also the date of the sale and its consecutive number. If this ticket is given or sent with the goods sold, the customer will know that he is correctly charged, and can identify the assistant in case of any difficulty.

If the transaction is such that a bill must be written out, the cash register can overprint at the head thereof, both on the original and the duplicate, the initials of the assistant, the amount of the sale, the consecutive number, and the date. If such a bill is overprinted the regular ticket is not issued.

When sales are made on credit terms, the amount of such credits is obtained by recording all credit sales on the special total adding device provided for the purpose. A similar adding device is provided to record all cash paid on account, so that by deducting the one from the other the total amount of outstanding credits is known. Money paid out can be checked by comparing the total adding counter with the signed receipts.

In the slide type of cash register, of which the Gledhill is an example, registration is made, not by keys, but by the movement of slides representing pounds, shillings, and pence. On the slides figures are engraved, and these record the amounts of the purchases. In its normal condition the Gledhill machine is locked until a registration is made upon the paper. This is done by means of a metal stylo which is placed in a hole beside the

figure and the slide is drawn towards the stop bar. This operation sets the slides so that they print the amount of the purchase, strong gear teeth being cut in them in order to move the adding wheels.

Depressing a lever at the top of the machine sets in motion mechanism which causes a hammer to strike the private copy roll, the ink ribbon, and the receipt roll against an engraved slide, thus printing on both rolls the amount of the purchase; the same movement also unlocks the handle on the front of the machine. On turning the handle once completely round the receipt is thrown from the machine and the registering slides move back into their normal positions, at the same time adding the amount of this particular purchase to the previous total. The cash drawer is thrown open, and on closing this the machine is automatically locked and so remains until the next operation begins.

The receipts issued by this machine are printed on the machine itself and are dated and numbered consecutively, so that by consulting one of them the date of a transaction can be ascertained. The total number of customers served in any period is obtained by reading off the number of the last receipt issued. To reset the machine to zero, the lid must be unlocked, the slide bar lifted up, and a knurled screw turned. These machines are made with extra pieces of mechanism to satisfy particular demands. For instance, a fourth slide can be added near those that record the pounds, shillings, and pence for the purpose of indicating the department responsible for this sale, or for some other purpose.

Book-keeping Machines

These machines are really calculating machines to which certain extra features have been added for making book-keeping entries. They can be used with either the card ledger or

the loose-leaf ledger. They are, as already stated, variants of adding and calculating machines.

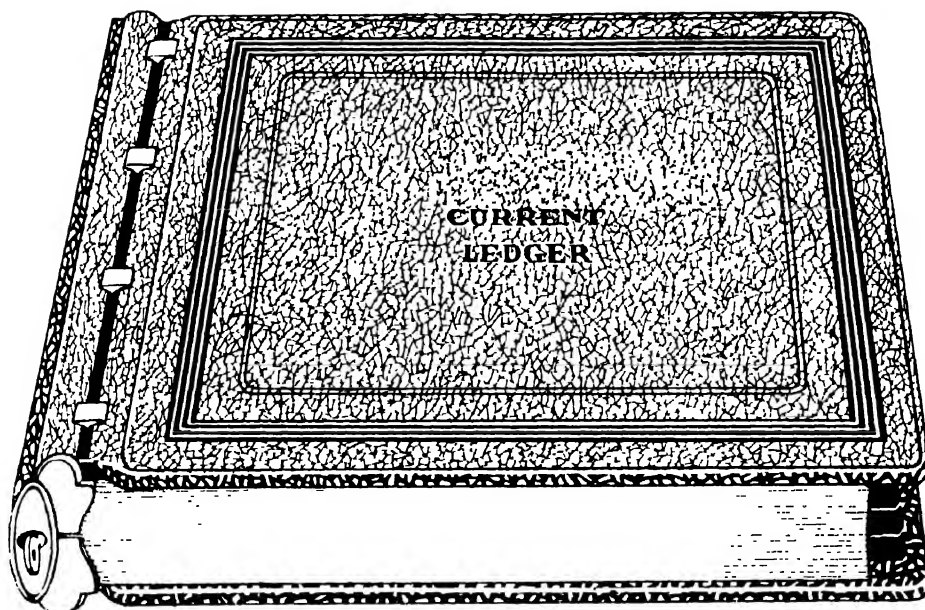
A typical machine is first of all equipped with the standard full visible keyboard, which has a listing and totalling capacity of £99,999 19s. 11½d.; also a complete calendar section for months and days; fifteen three-letter character keys for describing items; four columns of figure keys for printing folio numbers in red italics; keys for automatically repeating dates, folio numbers and amounts and for non-adding; separate column release keys for single-column corrections and a general correction key for cancelling a complete item: ciphers, punctuation marks, debit or credit balance symbols, and subtract symbols print also automatically. The machine is fitted with adjustable paper guides to permit of the quick alignment of ledger sheets or cards of different sizes. This particular machine is equipped for electric operation only.

Many of the operations are performed automatically, thus leaving the operator free to concentrate on those that are not. For instance, at each posting the correct date is printed when required, as are ciphers and punctuation marks. The proper columns for all entries are selected automatically. Each debit is automatically added and each credit subtracted, and the new balance extended in the proper column. One depression of the key prints the new balance with a suitable debit or credit symbol. All totals, subtractions, debit and credit balances, and closed accounts are designated with red symbols and dates; descriptions and folios are printed in red. Finally, the carriage can quite easily be moved automatically to right or left.

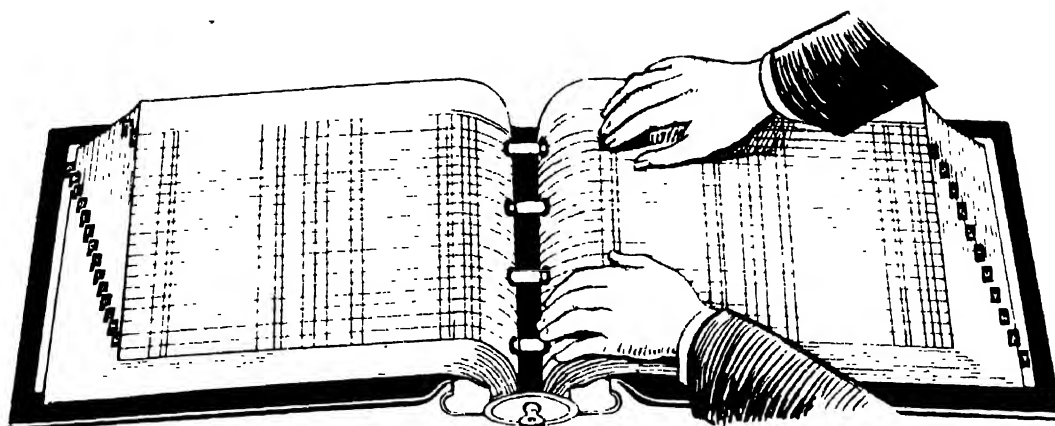
Addressing Machines

In offices where a large number of letters and circulars are sent out to the same persons, or many of the

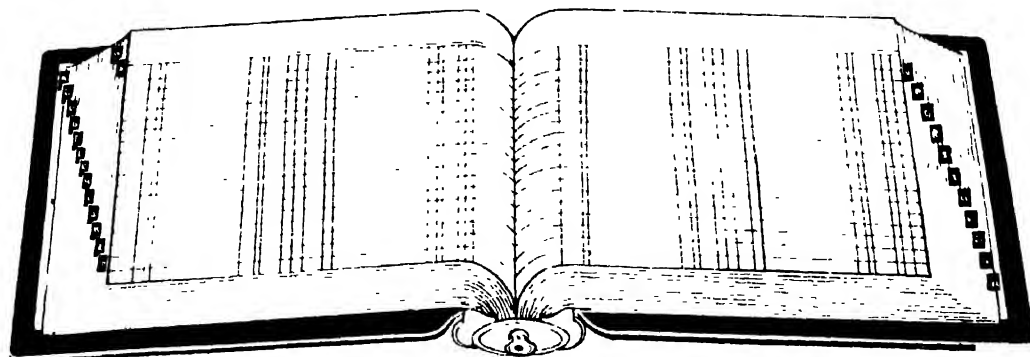
LOOSE LEAF LEDGERS



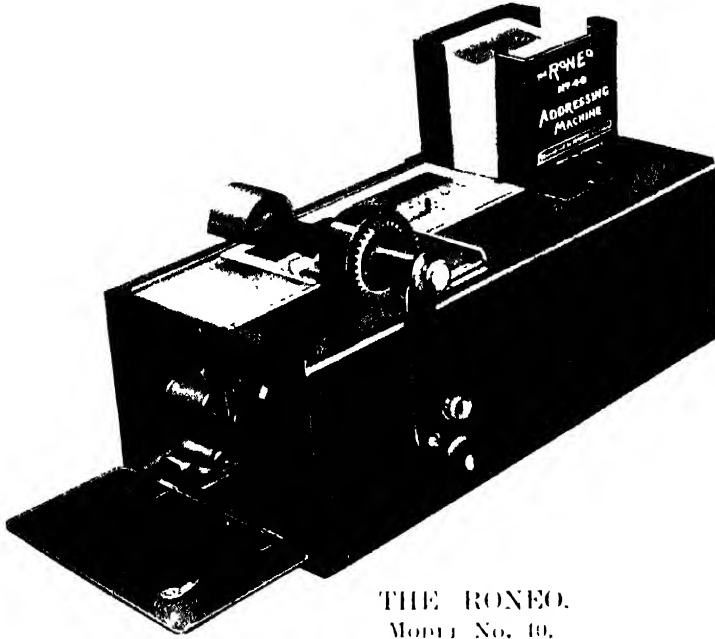
THE HAYFIELD SECURITY LEDGER.
 method of using loose leaf ledgers is explained in the text.



Showing the method of removing obsolete pages and inserting fresh pages. The Ledger is controlled by Yale Key and Lock. The key to open the Ledger is kept by a responsible official.



ADDRESSING MACHINES



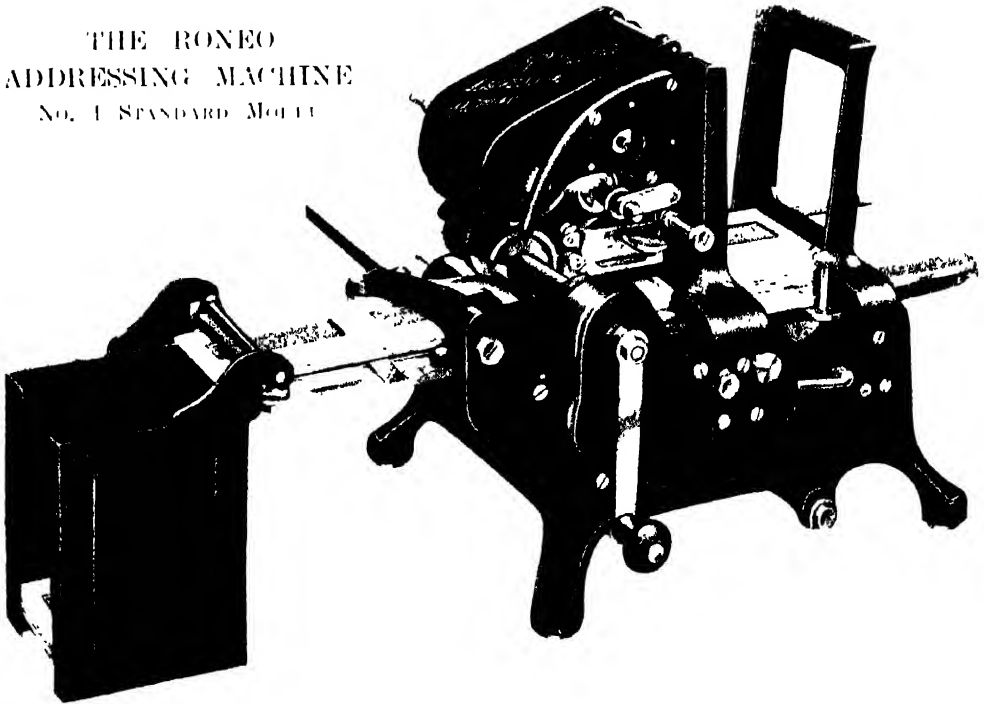
THE RONEO.
Model No. 10.

An Addressing Machine has become a required feature of the modern office and is a great labour saving device. The machine illustrated here is adapted for all kinds of Sales Letters. It fills in the name and address, the date and the opening salutation. The addresses and salutations change automatically.

It is used also for the preparation of Dividend Lists, Annual Summaries, Dividend Warrants, and wrappers and envelopes for Notices and Reports, and all kinds of advertising matter, mail cards, labels, tags, etc.

Gas, Water, Electricity and Rate Demands can be filled in and addressed, and Monthly and Quarterly Statements of Accounts are headed and dated. The machine is operated by hand and produces between 800 and 900 addresses per hour.

THE RONEO
ADDRESSING MACHINE
No. 1 STANDARD Model



This is another Roneo Addressing Machine with special features. It runs at a higher speed than the one shown above. It is capable of producing approximately 1500 imprints per hour. The machine has a mechanism for receiving the stencils after they have been passed through the machine. It has also a duplicating device for supplying a stock of addressed envelopes, wrappers, etc. Mailing Lists may be produced in a variety of colours. The machine is practically noiseless in operation.

same persons, such as shareholders in a company or the customers, actual and prospective, of a mail order business, much time is saved by the use of addressing machines. Such can be used for addressing letters, post-cards, labels and wrappers; for preparing dividend warrants, dividend lists, wage sheets and time sheets; for heading invoices, monthly accounts and form letters, and for inserting names and addresses to demand notes, debit notes and other documents.

The usual method of operation is as follows. For each person whose name is on the list a card or plate is provided, and these are filed away in a cabinet very much as if they were ordinary index cards. The plates, known also as stencils, consist primarily of specially prepared wax fibre paper. Covered with a protecting paper, these plates are inserted into the machine, one at a time. The typing of the name and address removes the wax surface from the stencil at the points where the letters are impressed, and this allows the ink to print through the stencilled portion on to the paper.

This work can very easily be done on an ordinary typewriter from which the ribbon has been removed and an adapter fitted to take the stencils, but it is more usual to employ an addressing machine for this purpose. These machines are usually worked

by hand, but some are provided with electric power. In one model, which may serve as an example, on the right of the printing base is the magazine into which the stencils are transferred from the files, usually a drawer at a time, when they are needed. When the machine has been set in motion the stencils are conveyed, one by one, from the magazine and led along the carrier to the point at which they come in contact with the roller.

The envelopes or paper on which the addresses are printed are entered into an aperture below the printing mechanism and underneath the stencils. When the printing is done, the stencils pass in the same order into the receiving tray on the left of the machine. The mechanism provides for the omission of particular stencils if it is desirable to print only a selection of the names that appear on the list.

There are various addressing machines on the market, but the general principles are the same in all, although there are differences in the working details. For instance, one popular type of machine is made to use stencils on which the addresses have been typed in the ordinary way. The operations of this machine are performed automatically, and by it any number of impressions can, if desired, be taken from one card before passing to the next.



CHAPTER XI

FACTORY ORGANISATION

W. HOWARD HAZELL

Ex-President Master Printers' Federation

Efficiency and its Value—Factory Sites and Buildings—Power, Lighting and Heating—Fire Prevention and Insurance—Accommodation for Employees—Planning the Factory—Organisation—Other Machinery Questions—Depreciation—Factory Management—Overhead Expenses—Business Policy—Employees—Changing Methods.

INTRODUCTORY

THE term Factory Organisation covers a wide range of subjects and includes everything connected with the construction, the organisation and the plant contained within the walls of a factory. The subject is so vast that it is impossible to deal with it fully so as to cover all trades, but there are certain basic principles which apply to every industry.

Manufacture consists in taking material of some kind, modifying it, shaping it and ultimately converting it into a saleable article. The object of the manufacturer is to carry on his factory so efficiently that there is a margin between the cost of production and the price at which he sells his goods. If he fail to be efficient, he will not prosper, and either his trade will dwindle or disappear, or he will have to reduce his prices below the average market prices, in order to compensate his customers for the inefficient service he renders to them. It is evident that the aim of every manufacturer is to maintain and increase the efficiency of his organisation so that he may retain and develop his trade, and have a satisfactory margin between cost and selling price.

Efficiency and its Value

Efficiency may be defined for this purpose as "producing in the shortest time, at the lowest cost and by the best methods, the goods the customers desire to purchase." No factory can be working full time unless there be an efficient selling organisation to secure enough orders to keep the factory at work. This article does not deal with the selling organisation, but only with the production and organisation in the factory, and the best forms of building, organisation and lay-out will be considered. The factory that is best organised and most efficient will secure the most trade and make the largest profits.

The general principles which govern the effective organisation of a factory are the same in all industries, and include such subjects as the site of the factory, the type of building that should be erected, the planning and lay-out of the plant, the organisation and the *personnel*, and the methods of dealing with the stores, etc. It is essential that in every industry, and indeed in each factory, these general principles should be modified or developed in order to suit the particular class of work that is produced, and to increase the efficiency to the highest level.

In order to explain the various forms of efficient factory organisation, the arrangements that should be made if a new factory were to be erected will be considered, and the various points and their relative importance in building and planning a factory.

II

THE CHOICE OF A SITE

Some factories, which have been in existence for many years, have been built on sites which, for various reasons, are not suitable for the particular trade, and are incapable of development. The site that should be selected for a factory is affected by many considerations. In some industries it is desirable that it should be near a city where there are a large number of skilled craftsmen in that particular industry; or it may be a large number of women will be required. In the latter case it would be advantageous to erect the factory in a town where there are large engineering works, or where another trade is being carried on which needs a large number of men and boys. The manufacturer would then be certain of obtaining enough women and girls.

In other trades it is important that the factory should be erected near to the source of supply of the raw material. For instance, a large paper mill, requiring big supplies of coal, and pulp imported from abroad, could with advantage be placed near a port, so that the raw material could be brought to its own wharf by water. A factory requiring large quantities of coal and iron should be near the mining areas, and a trade which must deliver the goods produced very quickly to the consumers, may have to be near a railway station, or in the centre of a city. An example of the need for a central situation is an evening paper, which, of necessity, must be printed in the centre of the town or city where it is published.

In selecting a site for a factory, the probable number of employees in the future should be considered. If it be placed near a small town, there will be difficulty in getting sufficient workers, and the manufacturer, in order to overcome this difficulty, might have to incur the expense of building cottages for workers brought to the town.

Allowance for Expansion

The site purchased should be large enough to allow for expansion in the future, and the building planned for extensions to be added later on, without interfering with the lay-out or the processes of manufacture. It is often extremely difficult on a city site to secure additional land after a business has been gradually built up, and the cost of keeping land vacant to allow for developments in the future might be prohibitive. This drawback does not apply to factories erected on the outskirts of a town where the land is cheap. Many businesses have been considerably hampered because they required further space and could not obtain it, and the alternative of moving to a larger factory, or starting a second factory, is very expensive and causes a great dislocation in the work.

In some trades it is essential that there should be a railway siding running into the factory, in order to bring the raw material and take away the manufactured product, without haulage from the factory to the railway. In some industries a canal would be preferable to a railway siding, but in trades in which the value of the article produced is great in proportion to its bulk or weight, railway sidings and canal connections are unnecessary. Factories have sometimes been built on a site which was not level, and as the business expanded other buildings have been erected, and considerable difficulty arose in transporting goods to and from the different levels.

III

TYPES OF FACTORY BUILDING

The type of building which should be erected will depend upon the site that is selected and the trade carried on. In the centre of a large town it is essential that the factory should have many floors, as the cost of the land is high, but if the site selected be on the outskirts of a town, or in the country, it may be advantageous to have a ground floor building. The cost of construction of these two types of factory is approximately the same, and there are particular advantages in each. When the goods manufactured are very large, or very heavy, a ground floor building is preferable; or there may be a combination of a ground floor, for the heavy work, and a building of several storeys where the lighter work can be carried on.

A ground floor building has the advantage of a solid foundation for heavy machinery, which can be placed in any position. The roof is usually of the ridge and furrow, or "saw-tooth" type, in which the southern slope of the roof has no windows, and the northern slope is of glass and almost vertical, so that the sun only enters the building early in the morning or late in the afternoon in mid-summer, but there is always an ample flood of light in all parts of the factory. When a building has many skylights facing south, the temperature will rise as in a greenhouse when a hot sun is shining, and it is extremely difficult to maintain an even temperature.

If the building should have several storeys, the modern forms of steel and concrete construction make it possible to have the greater part of the side walls occupied by windows, and even in a city, if a site has been chosen with wide streets all round, there should be ample light in all parts of the factory. With modern steel construction and by having strong girders, it is possible to get wide floors with very few supporting columns. The absence of

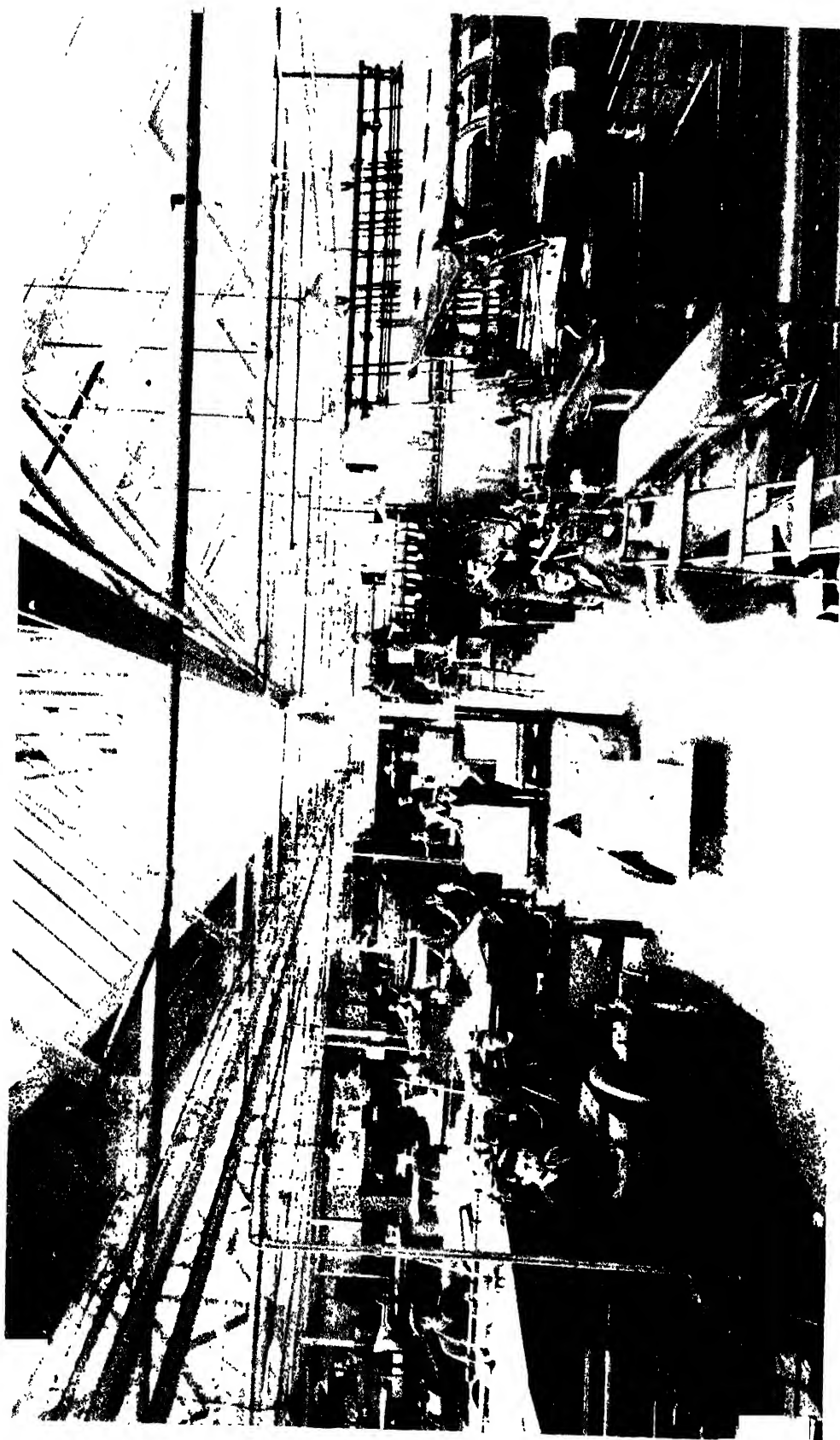
constructional columns is of very great advantage, as machines, benches, etc., can be placed in any position. The rooms should be high so that even with wide floors there will be sufficient light in the centre of the room for the employees to work without artificial light in the daytime.

When a factory is built it is impossible to foresee what may be the developments of the trade in the future, and though it may not be necessary at first to place machinery on the upper floors, it is quite probable that, owing to the growth of machine processes, it will be desirable in the future to place machines on the upper floors. If the first, and possibly the second, floor is built with steel girders and concrete or other strong flooring, the manufacturer will find many advantages in this form of construction, when the use of machinery increases in his business.

Lighting and Heating

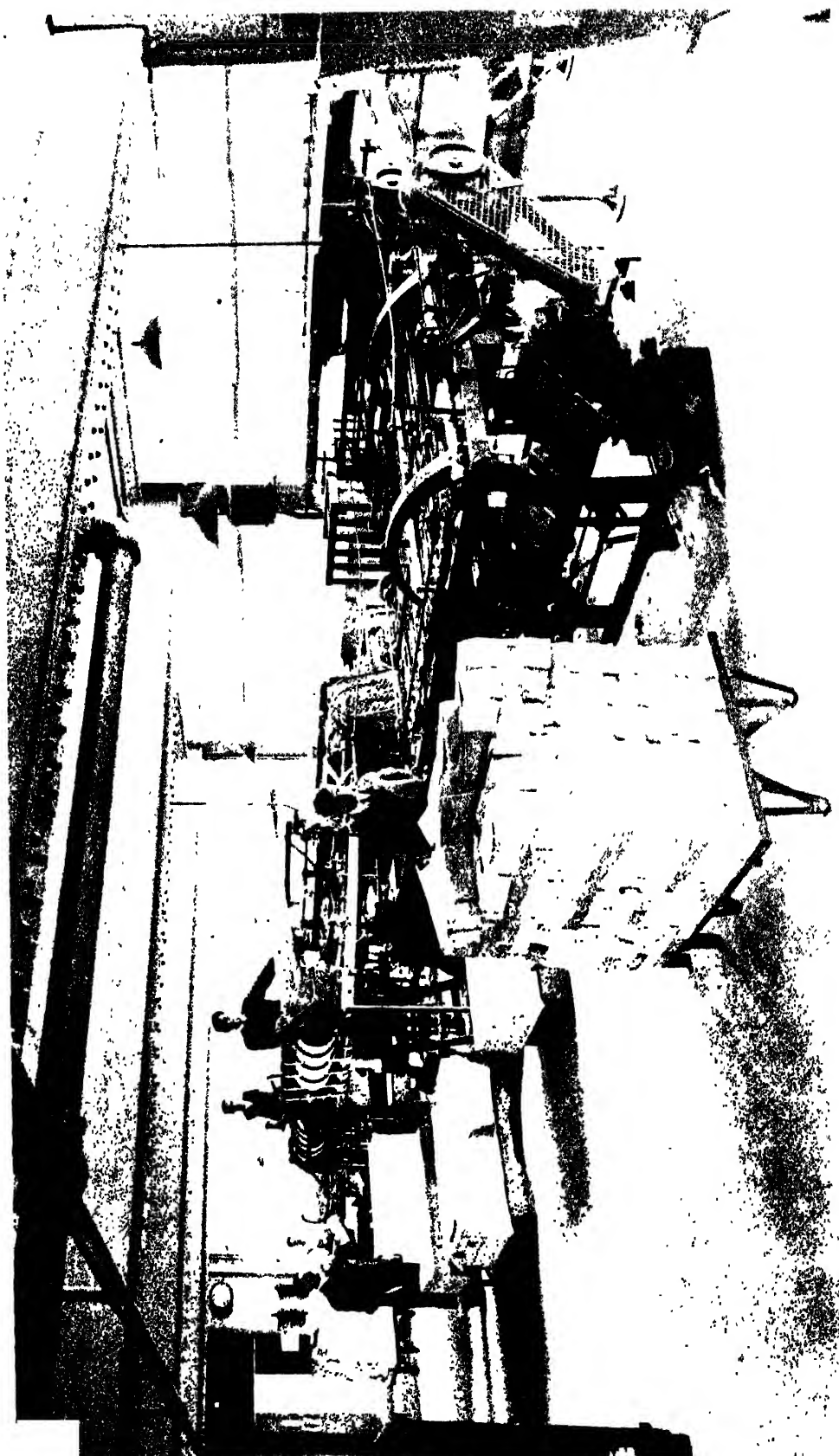
Whatever trade may be carried on in the factory, it is essential that there should be ample artificial lighting suitable for the particular work. There are manufactories which have been in existence for years in which the lighting is insufficient or badly placed, and considerable loss is unwittingly incurred by the manufacturer because his workers cannot see with ease the work they are doing.

The intensity of the light needed will vary very much in different industries; for example, in a foundry much less light will be required per foot of floor space than in a composing room in a printing office, where the men are working on small type which is often blackened by ink, or in a factory where a large number of women are doing some fine sewing; but, whatever amount of light may be desirable, it should be arranged so that there is no glare in the eyes of the workers, and no heavy shadows are thrown on the work that is being carried out. Probably electric light is the best for all



GROUND FLOOR FACTORY, WITH "SAW-TOOTH" NORTH LIGHT ROOF.

This illustration shows the advantage of a uniform flood of light for the whole building, and the absence of overhead shafting and belts. An individual electric motor drives each machine. The wide passage-way permits of trolleys moving easily in all directions, and lifting platforms carrying heavy weights of material.



A MODERN FACTORY WITH A MAXIMUM OF WINDOW SPACE.

This photograph was taken from the second floor of a six-story concrete building. The floors can be 80 to 100 ft. wide with good illumination in the center, provided the windows are of sufficient width. A hand or electric trolley can be used to let the platform in the foreground. The trolley will lift the platform, at which time, the worker can be wheeled away and deposited at any place, without moving the worker. The electric shades are a platform which throw good light on the work, and the glare in the eyes of the worker is avoided.

kinds of work, but unless the lamps be carefully placed and properly shielded, the brilliant filament will dazzle the eyes of the workers if they look up, and a few seconds will be lost when they look down again in consequence of the unshaded lights.

The heating and ventilation of the factory should be ample, and uniformity of heating is most desirable. An early morning temperature of 60 degrees may be difficult to obtain on cold days, but when the temperature is too low, the employees cannot work with comfort and money and time are thus lost. The temperature should be varied in the different departments according to the occupation, as men doing heavy physical work require a lower temperature than those engaged in sedentary work.

• There are various forms of heating, and the most usual are steam or hot-water pipes or radiators. Another method is the Plenum system, by which the air from outside is drawn through a canvas screen to remove dust, passed through a spray of water to produce the proper degree of humidity, and then over steam-pipes to raise it to the right temperature. The air is distributed by conduits and tubes to different parts of the factory, and gradually passes out through the windows and ventilators. With this system there is a constant supply of fresh air, and, if the system be well planned, draughts are avoided and the humidity can be regulated. With any form of heating a few electric fans fixed in windows near the ceiling withdraw the vitiated atmosphere and create the slight movement in the air which is desirable.

Fire Prevention

In any factory in which there is the possibility of fire, it is desirable to have a sprinkler installation. By this system the ceilings are covered with a network of pipes filled with water under pressure from the main, and at regular intervals there are small

nozzles which open at a fixed temperature and discharge water on the fire below. No serious fire has occurred in any factory which has been properly fitted with sprinklers, and a manufacturer who uses these methods has the great advantage of knowing that his business will never be disorganised by a serious fire, and the interest and depreciation on the sprinkler installation are usually more than covered by the reduced premiums for fire insurance.

Power Supply

In factories which have been built many years, and particularly in certain trades, the power is generally obtained from a steam engine, and shafting and belts are used on every floor. When a constant load is anticipated and the machines are placed in a central position there are some advantages in this form of driving. In many industries, however, the best method of driving is by electric motors, either individual motors for large machines, or a group of small machines may be driven by one motor driving short lengths of line shafting.

There are many advantages in driving by electricity, as the machines can be placed in any position, instead of having to be put under a line of shafting. It is also possible, with a suitable starter, to vary, whenever necessary, the speed at which an individual machine or group of machines is driven by motor. In some trades it is often necessary to work certain departments or machines on overtime, and with electric motors it is not necessary to run all the shafting in the factory, and, if the current be taken from a public authority, there is no need to keep the engineers and stokers to drive the power plant. If individual motors be used, there is an absence of belting, and the dust and dirt and risk of accident from shafting are much less.

In a small factory it is much cheaper not to generate the current in the

factory, but to obtain it from the street supply, as there is less risk of a breakdown, and the cost of running a small generating plant is high. In large factories it may be advantageous to generate the current, but even then, unless a duplicate plant be installed, it would be desirable to make arrangements to throw over the load on to the street supply in case there should be a breakdown.

Accommodation for Employees

In any well organised factory the lavatories for the workers would be ample in number and always in a cleanly condition. There should be suitable washing appliances with hot and cold water. Large earthenware troughs with rose sprays are more satisfactory, and enable more people to wash at one time, than single basins with a plug.

The Factory and Workshops Act requires that premises should be white-washed once in every fourteen months, or, if painted, washed once in fourteen months and painted once in seven years, and though this may seem unnecessary in some industries which do not create dirt or dust, there is no doubt that frequent painting and cleaning add to the comfort of the employees and increase the amount of light reflected from white walls. If much fluff be created, a vacuum cleaner will be the best means of cleaning the walls, ceilings and floors. Windows and skylights should be regularly cleaned, as dirty windows increase the expense of artificial light and are objectionable in many ways.

There are many other methods of adding to the comfort of the employees, such as providing suitable clothes racks and a supply of drinking water direct from the main in each department. Small drinking fountains, where a spray of water rises when the tap is pressed, which can be drunk without the use of a cup, are preferable to a common cup or mug.

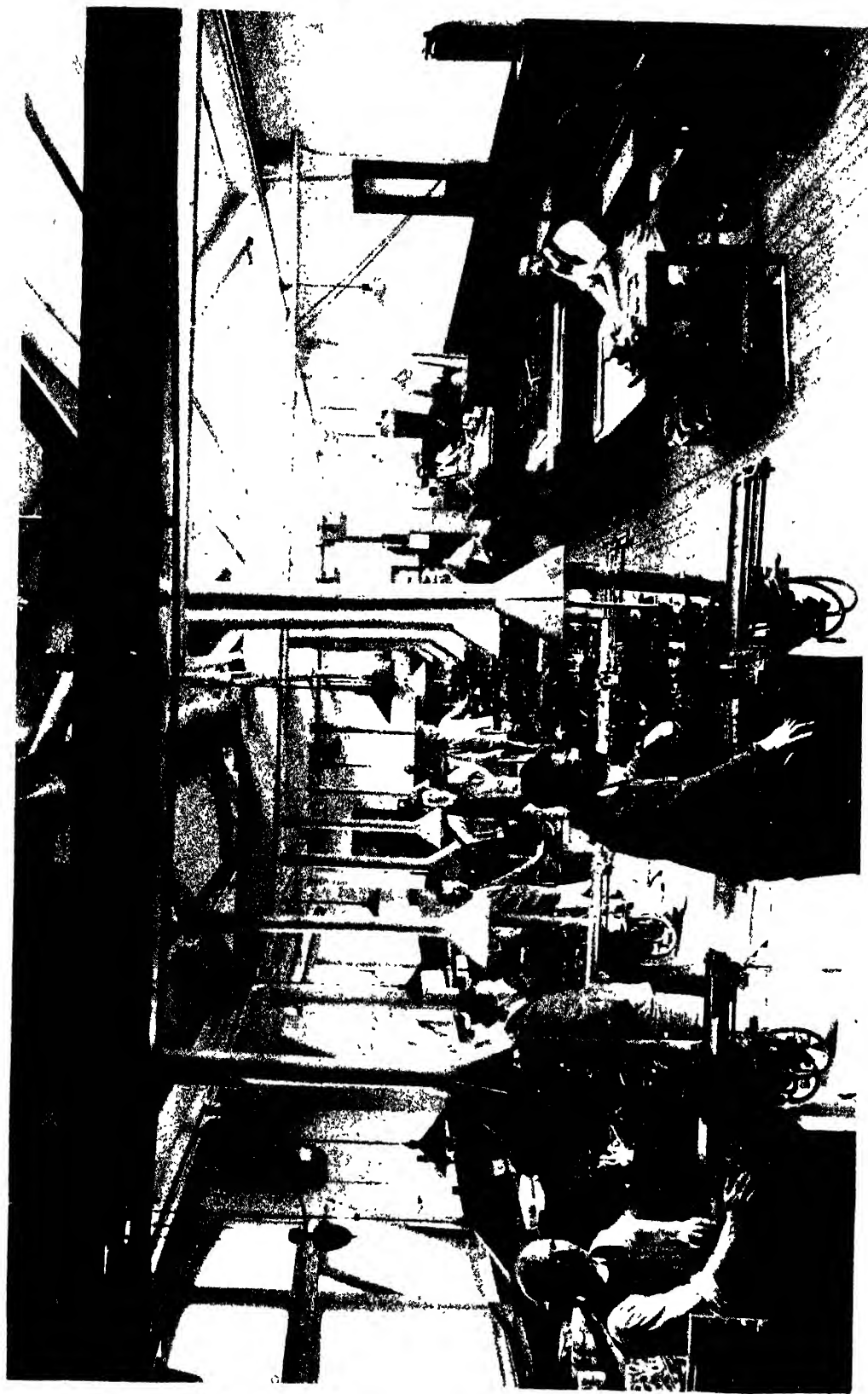
When a factory consists of several

storeys, it is essential that there should be sufficient lifts for carrying the goods from floor to floor. If these lifts be continually running, it may be desirable to have a liftman permanently in attendance, but in many factories an automatic lift, which can be brought to any floor by pressing a button, is more satisfactory, as it can be used by all the porters or other persons carrying goods from different parts of the factory. These lifts are practically "foolproof" as they cannot be worked unless the gates on all floors are closed.

Departmental Communications

It is essential in all but the very smallest factories that there should be some means of communication between the heads of the different departments and the office, etc. Inter-communication telephones, by which any person can ring any other person on the telephone, are convenient, but it may be desirable that the heads of departments and many persons in the office should have an extension of the Post Office telephone on their desks. When there are many telephone extensions throughout the factory, they can be used as intercommunication telephones by ringing down to the telephone operator, who puts the speaker through to the department required.

In some factories it may be necessary that papers, instructions for delivery, etc., should be rapidly conveyed to different parts of the building, and pneumatic tubes are useful under these circumstances. Tubes would radiate from the office, and each department could send to the office for re-despatching to another department. If tubes are not suitable, it would be desirable to arrange that a messenger should go round the departments at fixed hours throughout the day, in order to collect letters, documents, etc., and re-distribute them. This will be found a much cheaper way than having messengers running from all departments to all other departments.



VENTILATING A MODERN FACTORY.

Good ventilation is obtained in this factory by fixing hoods over each machine. The fumes are exhausted by a large electrically driven fan in the main ventilation duct.



A GROUP OF SMALL MACHINES, DRIVEN BY SHAFTING BELOW THE FLOOR

The wide passage-way on the right permits all work being brought to the tables behind the machines, and when the work is completed, it can be taken away from the same tables and stacked in some convenient place.



THE STORAGE OF MATERIAL.

Iron buildings give large cubic capacity at a low price, and if sufficient land be available, large floor space can be obtained at low cost. The wide passage ways and concrete floor permit the use of the electric lifting trolley seen in the distance, which will move half-ton loads.

IV

PLANNING THE FACTORY

The best form of lay-out of a factory will depend on the nature of the work that is carried out, but there are certain broad principles which will apply to all buildings. It is desirable that the offices should be centrally placed, so that it is easy for the office staff to reach any part of the factory. The general scheme should be that work should pass through the factory, from stage to stage of manufacture, with a minimum of movement, and never return upon its track. When there is a railway siding, the lay-out should be planned so that the raw material starts from the siding, passes through the factory and ultimately returns to the siding with as little travelling as possible.

Care should be taken that ample space is left for passage ways, wide enough for trolleys, etc., to pass down, and there should be sufficient space near the machines or working benches where the material can be stacked during the process of manufacture. Much time is lost and expense incurred when machines are too close together and there is insufficient stacking space.

Main Divisions of Production

Factory production may be roughly divided into two classes—uniform mass production, or job production. Uniform mass production consists of continually making one type of article, such as a motor car, tins of condensed milk, boots of one style, or pins, and similar articles; whereas in job production a variety of articles of different kinds and sizes are made, and generally to the specific orders of the customers. With mass production of uniform articles, the work of six or twelve months should be planned, in conjunction with the sales department, and when an estimate is formed of the weekly or monthly production which will be required, the number of

employees and the day work or overtime required can be calculated and plans made accordingly.

If the article produced should require many parts, such as a motor car, or a large printing machine, very careful planning is necessary to ensure that all the parts required will reach the erection floor at the same time. The factory may be producing a great variety of articles; for example, a manufacturer who makes printing machines may make for stock a standard pattern of a small machine of low value, but occasionally he may make to special order a very large machine for printing a newspaper. This machine may take six or nine months to build, and most of the larger parts will have to be specially made, and others will be in stock in the store room. It is undesirable to lock up capital in the various parts until they are required: therefore, works orders for the different parts should be issued at various dates, so that they ultimately reach the erection floor at the same time.

In factories of this kind it is essential to have a good planning department, which will issue the orders to the different departments to make the parts required, or obtain the parts from outside, and a day-to-day record should be kept, in order to trace that each part is progressing through the factory in proper time, so as to reach the erection floor at the right time. This applies also to other trades; in most factories, normally, the product is the work of several departments. If there is efficient planning all component parts will be ready to scheduled time; otherwise the rapidity of turnover is slowed down. If the various proceedings keep step there will be an elimination of rush and bustle and the attendant evils of dislocation of work. There should be no chasing up of raw materials at the last moment. There should be thorough co-ordination and no water-tight compartments.

When job work to customers' orders is produced, it is almost impossible to plan the work for weeks in advance. The machinery and organisation must be prepared to deal with the volume and kind of work that is anticipated, and reliance must be placed on the sales department to keep the machinery reasonably employed.

Working Instructions

In any factory—whether engaged on job or mass production—arrangements should be made to give complete and explicit instructions for the work to be carried out. Each order should have its own number, which should be repeated on all cost sheets, time sheets or requisitions for materials. The instruction sheet or work ticket may be one sheet to accompany a small job through the factory, or duplicate sheets for each department, so that the manager or overseer may know the jobs which will reach his department, and so plan his work economically.

In many instances sheets with special instructions for each department are more convenient, as the instructions for other departments may be elaborate, and useless except in the particular section for which they were prepared. Whatever method may be adopted, the instructions should be so clear that mistakes are not made, and so complete that it is not necessary to refer to the office. In a well-planned factory a workman would not leave an expensive machine standing idle while he went to get instructions for his next job, and then fetched material. Instead, the work should be planned so that before a job is completed the instructions and materials are ready near the machine, and the "idle" time between jobs is thus reduced to a minimum.

Conveying Material

The conveyance of material and the goods in process of manufacture is a very heavy expense in every factory,

particularly in those in which the material is bulky, and where there are numerous processes. In engineering works travelling overhead cranes will be employed, or in other factories trucks running on small tramlines can convey the material to different parts of the building. In some processes belt conveyors are useful, and, as they can carry the material up and down slopes, they are very convenient in many industries.

Another method is to use gravity conveyors, which consist of run-ways of steel rollers a few inches in diameter, on which bundles of goods or parts can be placed, and by their own weight they travel down the run-ways, which can be built to turn corners, and, if need be, a belt conveyor can raise the articles to a higher level.

In many trades it is necessary to stack the work as it passes from process to process through the factory. In a printing works where large quantities of paper are handled, or in other factories where the work can be placed on low platforms, it is possible to convey the work by truck with a minimum of handling. These wooden platforms or stagings can be a few feet square, and stand about 9 inches from the ground. The trolley, which may be driven by hand or by electric motor, passes under the platform on which the work is stacked, and by a hand or motor contrivance the platform is lifted from the ground. The platform is wheeled away to its destination, and is then deposited, and the material has not been touched by hand.

In some trades it is convenient for the workers to have beside them tables on wheels. The material is taken from one table, passed through the machine or worked on, and placed on a table on the other side, and these tables can then be wheeled to any position in the factory, and the material is never handled at all, except in a process of manufacture.

In motor factories producing cars by mass production, the work is

usually conveyed from worker to worker on a long chain or belt; thus, the chassis will be clamped on at the end of the travelling chain, and it either moves forward very slowly, or moves a definite distance at a given signal. Groups of workers on either side of the moving chain screw on parts, add wheels, mudguards, etc., until the engine or chassis reaches the end of the chain, when it is completed and ready for use.

V

THE STORAGE OF MATERIAL

The storage of material and manufactured parts kept in stock requires careful supervision, as, unless this be properly carried out, material will be wasted, unnecessary stores will be accumulated or will not be in stock when required, and considerable loss will be incurred. The stores department should be centrally situated so as to be easily reached from any part of the factory; or, if the factory be very large, subsidiary store rooms, or store rooms for special classes of material, may be required in different places. The goods should be stored in bins, racks or stacks, as may be most convenient, according to their size and weight, and every passage-way, bin, etc., should be numbered.

Records of Stores

A careful record should be kept of all stores and materials, their receipt and issue. A loose-leaf ledger or card index must be accurately kept, and each leaf or sheet should be for some particular article. At the head of the card should be placed the description of the material, the number of bin, etc. Someone in authority should decide what are the maximum and minimum quantities required, and the person keeping the stock accounts should notify whoever buys the material when the stock has reached the minimum quantity. The records should be ruled so as to show the date,

maker and quantity of goods on order, deliveries that have been received and the invoice price. The third compartment will show the date, order number and quantity of material issued for each order or requisition.

When the stores or materials are of many qualities or sizes, it is advantageous to classify them in groups in a schedule, which can be printed and referred to by departmental managers or others who requisition stores or materials. The groups may consist of bolts, screws, paints, materials or any other suitable sub-division, and when the printed schedule shows the group and sub-number of each article, it is simple to apply for goods and refer to the stock ledger. For example, screws might be group number 5, and three-inch screws sub-number 12, and they would be requisitioned as 5/12. The sheets in the loose-leaf ledger, or cards in the card index, should bear the group number and sub-number at the top, and be filed numerically according to these numbers.

There are many advantages in keeping proper records of the receipts and issues of material, etc. In case of fire the records, if placed in the safe, very much simplify a claim for insurance, and are a sure proof of the quantity and value of the material that has been destroyed. Stocktaking is also simplified, as if the material in store is checked with the records in the two or three weeks before stocktaking, it is safe to assume that there are no errors in the stock on the stocktaking day. Stock cards can be given to a number of clerks to add the receipts and issues and find the quantity in stock, and as the cost price is entered on the stock cards, stocktaking becomes a fairly simple process, instead of the nightmare it is in many businesses with much miscellaneous stock.

The Checking of Tools

In some trades, particularly the engineering trades, it is essential to

have a large number of special or expensive tools which are required from time to time. The small tools that every worker is using continually will be always on his bench, but special tools should be kept by the storekeeper and only issued when required, and some receipt given by the worker, so that a check can be kept to see that they are returned to store.

One method that can be used is for each worker to have a number of metal discs, bearing his wages book number, and for him to hand in a disc when he receives a tool, and the disc can be placed on the nail or shelf on which the tool is kept; or the worker can write out a small docket and sign it, and the storekeeper keeps this docket and hands it back to the worker when he returns the tool. Should an employee leave, the tools he has had out can be checked by these records, and the storekeeper must see they are returned before he leaves the employment.

VI

OTHER MACHINERY QUESTIONS

In every industry machinery is now doing much of the work that was formerly carried out by hand. In some industries the increased use of machinery has been greater than in others, but in every trade it is essential to find out what machines are suitable and what economies will be made by manufacturing by machine instead of by hand. In order satisfactorily to answer these important questions it is necessary that a good costing system should be installed. The correct methods of costing are described elsewhere, but before new machinery is purchased, the cost per hour or the cost per unit of production should be checked and compared with the cost of production by hand or by the older forms of machinery in use.

It is not always desirable to purchase labour-aiding machinery unless

the immediate use of the machines, or the increased future demand, will justify the capital outlay. The number of hours the machines would be used must be estimated, and the probable economy calculated. In many trades manufacturers are suffering from over-equipment. The capital sunk in machinery is often greater than it should be, as the volume of work going through the factory is insufficient to justify the specially expensive plant, and it might have been cheaper to obtain some of the parts required from some other manufacturer, rather than buy an expensive machine which will only run a few hours each week.

Machinery Depreciation

The wear and tear of all machinery is considerable, and in a well organised factory the manufacturer will write off annually a reasonable amount for depreciation on his machinery, and include this expense in his costs and so recover it from his customers. The machinery is worn out in the service of his customers, and is as much an expense which they should pay, as the wages of men who work the machines. The depreciation should cover, not only the physical wearing out of the machines, but also the probability of obsolescence caused by an improved machine being invented, which will often render an old type of machine, still capable of working, almost valueless, as the new machine produces much more cheaply.

In some industries the machinery is so expensive that it will be economical to run double or even treble shifts, and if this method be adopted the rate of depreciation will be considerably higher than when only one shift is running. Records should be kept of the life-history of all important machines. A card index, with a card for each machine, can show the date of purchase, a brief description of the type of machine and its

cost, and on the card should be entered the cost of repairs, renewals, etc. The manufacturer will then be able to judge the value of different types of machines, and decide when the cost of repairs is so high that it is desirable to scrap the machine. These records will also be of great value if a fire should occur, and will also show whether the existing rates of depreciation are correct.

In a factory which has been recently erected, the plant will be new and up-to-date, and the manufacturer will have the advantage of low costs of production. The great majority of factories, however, have been in existence for many years, sometimes for more than a generation, and in many of these there is often a collection of machines which should have been scrapped many years ago. The cost of production under these circumstances must be high and the output per foot of floor space low.

If the old machines were scrapped and the lay-out of the factory re-organised, the new machines and methods would increase the output and lower the cost of production so much that the manufacturer would be better able to compete with his rivals. Because an old machine is capable of working is no proof that it is not thoroughly inefficient owing to new inventions, and though an affection for the "antique" may be a wise policy for a picture dealer, it is folly for a manufacturer in his factory.

Insurance

No greater calamity can afflict a manufacturer than to have his factory gutted by fire; his plant and buildings are destroyed and probably for months he can produce nothing until his new factory is equipped, and meanwhile his trade has gone to his rivals. Sprinklers reduce the risk of damage by fire to a minimum, but whether a factory is, or is not, protected in this way, it is desirable that the factory and its contents should

be covered by an ample insurance policy.

Owing to the great increase in the cost of buildings and plant since the war, their value as shown in the books of the concern may be useless as a basis for insurance. The plant may include machines erected before the war, when prices were much lower, some purchased at the height of the post-war boom, and others at a later date when prices had fallen. The book values represent the purchase price less the depreciation which has been written off, and this sum may or may not represent the fair market value in a going concern. When a fire occurs, the manufacturer would wish to reinstate his plant, and the written down value—particularly of pre-war machinery—would be quite insufficient to purchase new plant.

The insurance company would settle the claim, not on the book value of the plant, but on its actual value when the fire occurred, which might be considerably less. If a plant record, such as has been suggested, had been kept, the settlement of the claim would be facilitated, but undoubtedly the most satisfactory basis would be a priced inventory prepared by an independent expert and revised from time to time. The valuation would show the original cost, the replacement cost at current prices for new machinery, and also the current depreciated value. The buildings could also be valued in a similar manner.

The insurance companies are willing to issue policies to cover either the depreciated values, or the replacement cost of new plant. For example, the machinery purchased over a period of many years may have cost £50,000, its depreciated value may only be £30,000, and the cost of new machinery at post-war prices may be £70,000 or more. A cautious manufacturer would arrange to insure his plant for the latter figure, so that should a disastrous fire occur, he would obtain

sufficient capital to reinstate his plant. Arrangements could be made with the insurance company that the values set down in the inventory should be accepted as the values at the time of signature, without further proof of value being required. It is essential that the values for different parts of the factory should be correctly stated; and, as there are many technicalities in connection with insurance, the advice of an insurance broker would be of great assistance in settling the conditions of the policy. .

The risks of serious loss by fire depend very greatly on the nature of the stock and materials, and the type of building. Ground floor buildings are much less likely to be completely burnt out than one of several storeys, where staircases and lifts tend to spread the fire from floor to floor. When ledgers or card indexes of stocks of parts and materials are kept, they are a very satisfactory means of proving the damage caused by the fire. The costing records will show the value of the work in hand which has been destroyed, a loss that is difficult to prove unless an efficient costing system is installed. Needless to say the stock ledgers and costing records should be placed in a safe at night.

There are several other risks for which insurance is desirable, such as Workmen's Compensation and Employers' Liability. Some employers prefer to settle small claims from their employees more generously than an insurance company would, and the employer would wish to be covered only for very large claims. Insurances can be effected for all claims over say £50 or £100, and the employers would then pay a smaller premium, and be responsible for the minimum amount. When a business is stopped owing to a fire, the profits also disappear, and it is possible to insure against the loss of profits due to the a calamity of this kind.

VII

FACTORY MANAGEMENT

The developments in the labour-aiding machinery for use in the factory have had their counterpart in the office, and in recent years there has been a complete revolution in office methods. As these matters are the subject of another chapter (see Organisation) they need not be considered further here.

In every factory it is desirable to divide the organisation into different departments, according to the nature of the work that is done and the size and ramifications of the business. The departmentalising of the work assists in organising an efficient control, and is essential for costing purposes. The duties of each manager, overseer or foreman in each department or section should be clearly defined, as a frequent cause of confusion and delay in a badly organised factory is the uncertainty as to where a man's responsibility begins and ends, and the possibility of two people giving contradictory instructions to an individual. When the duties of each person in a responsible position are clearly defined, they can be blamed for their own failures and praised for any success, but unless this careful planning of duties be carried out, it is difficult to hold anyone responsible when a breakdown occurs.

The Main Divisions

It is impossible to suggest what the departments should be or how the duties should be sub-divided, but it is convenient to have a chart showing how the responsibility for the instructions and control will radiate downwards from the principal or managing director, or whoever may be at the head of the organisation. The broad distinctions in most businesses are finance, buying and manufacturing. The manufacturing will be sub-divided into the various

processes of manufacture, and also stores, engineering, etc., according to the size and nature of the trade carried on. The number of persons and allocation of duties on the financial side will vary in every business, but one principle applies to all, that the number of persons who can handle money should be as limited as possible. The temptation to theft is greatest when cash is handled, and it is the duty of every employer, both in the interests of himself and the staff, to place as little temptation as possible in the way of his employees. Many firms make a rule to obtain a guarantee policy for those who handle cash, as the assurance company make a very careful investigation of the past record of the employee, and insure the employer against loss by theft.

Value of a Budget

Unless a firm has very ample financial reserves, it is advisable to prepare a careful budget, estimating the income and expenditure for the immediate future. When a business is developing rapidly, it is difficult to arrange finances, and a budget under these circumstances is very helpful. An estimate should be formed of the amount that will be spent for general expenses, wages, materials, etc., and of the receipts from sales, etc. If this budget be compared with the actual receipts and expenditure month by month, it will be possible to increase the accuracy of the budget, and it will then become a very valuable guide to the principal, to assist him in arranging the finances of the business.

Buying

In small businesses the principal will probably do all the buying. As the business grows larger, the tendency is for other persons actually to do the buying or make recommendations. It is desirable that all the buying should be limited to as few

persons as possible and these must be of known probity. Unfortunately, temptations are often placed in the way of those who act as buyers, and no firm can be well served if their buyers accept bribes, and, therefore, it is most desirable that all the buying should be done by a few persons whose integrity is above suspicion.

Whatever goods may be bought, careful details or a specification should be sent with the order, so that there can be no misconception about the quality or quantity of the goods that are to be supplied, and delivery dates should be specified on the order. Unless the number of orders is very small, or goods are always delivered immediately from stock, it is desirable to have a card index of purchases, so that the dates for delivery can be checked, and dilatory suppliers can be reminded when the goods are overdue.

In large businesses, where the orders run into many hundreds, it is essential to have a complete index, with signals on the cards to show the goods that are due, goods that are overdue, or any other information which the buyer can see at a glance in dealing daily with the multifarious orders. The purchases of all kinds can be analysed into departments and classes of goods. The invoices when passed should be marked with the department number or letter for which the goods were ordered, and a sub-number for the class of goods. When these purchases are analysed at the end of six or twelve months, the rise or fall can be compared with the corresponding previous periods. General expenses should always be critically examined, and by an analysis, as suggested, leakages or waste can often be detected.

The proprietor of a small business may consider that the records and details that have been suggested are unnecessary in his business, but small businesses grow into large ones, and if a small business be well organised

and the routine carefully planned, economies will be made, work will run smoothly, and the possibilities of its developing successfully are much greater than when bad methods are adopted, and there are too few records of the work produced and of the instructions that have been given.

Business Policy

When a business is quite small, it is possible for the proprietor to keep in touch with all the details, but, as it grows, he must depute more and more to his subordinates. The general direction and decisions of policy will be retained by the principal, but a close co-operation between the departmental managers is essential. When they are taken into the confidence of the principals, and know the policy to be pursued, they are better able to carry out their duties. Specialisation is the trend of all industries, and a manufacturer who lays down plant to make a large number of a few specialities is much more likely to succeed than when he tries to make a small quantity of many lines of goods.

The ideal in all factories is to have a steady flow of work which will keep the plant and staff fully occupied throughout the year. When there is a steady pressure, outputs are high and costs are low, and a good staff can be retained. But when periods of pressure and slackness alternate, the costs must be higher. The employees slacken their efforts when the work diminishes, some of the best workers may leave, and profits made at times of pressure are lost when the plant is not fully occupied. The overhead expenses are always heavy, and continue with little alteration.

When the output is low, rent, rates, depreciation, insurance, office and management salaries and many other expenses cannot be reduced in proportion to the output. In some industries it may be desirable to accept orders at low or even unre-

munerative prices when trade is bad, and orders are few. In other trades, where standard lines are made, and the sales are seasonable, it is often a wise policy to make for stock in slack periods and thus strive to keep the factory one hundred per cent. full. Additional capital will be locked up in stock and work-in-hand in the slack seasons, but the loss of interest, cost of insurance, etc., will be more than recovered if the output can be maintained and the goods sold within a reasonable time. In a business doing job work to customers' orders, this policy is impossible, but when the manufacturer is making standard lines, and can estimate his future sales, it is possible to flatten out the peaks and valleys of the demand in his factory, and thus considerably increase the efficiency and reduce the costs.

Another advantage of planning a steady output in the factory is that it is possible to buy material more economically and usually a lower price can be obtained if a big contract for delivery, extending over a period, can be placed, instead of buying from hand to mouth as the orders are received. Some manufacturers may think it is a wise policy to buy very large quantities when materials are rising in price, but the possibility is that when prices fall the manufacturer will lose on his stock as much as he gained on the rising market.

Mr. Ford, in his autobiography, says, "We learned long ago never to buy ahead for speculative purposes. When prices are going up it is considered good business to buy far ahead, and when prices are up to buy as little as possible. But we have found that this buying ahead does not pay. It is entering into a guessing competition. It is not business." Circumstances vary and conditions are different in every industry, but the opinion of one of the most successful manufacturers of the twentieth century is worth consideration.

VIII

THE STAFF PERSONNEL

However carefully the organisation of a factory has been planned, however perfect the machinery and the methods may be, they are of little value unless the whole of the *personnel* is carefully selected and qualified for their respective positions. When the principals of a business are keen, energetic, able and tactful men, and good judges of character, they will gather round them a staff which will in many ways reflect their own characteristics, and the business will consequently prosper.

Selection of Employees

The selection of men or women for responsible positions is a work of the utmost importance, and instead of hastily appointing an applicant with little investigation, the wise employer will give much time and thought to sifting all the applications for the position, and carefully testing their qualifications. Good men who are capable of taking responsibility are difficult to find, and when appointed their position should be upheld and no instructions given to those under their control without their knowledge.

It may seem that such elementary suggestions for directing the control of a factory are unnecessary, but experience has shown that too often the management lack the discretion and ability to know how to depute work, and how to maintain the authority of those under them. In many trades there is a vast amount of detail which has to be dealt with day by day, and there is a tendency for men in responsible positions to give too much of their time to minor details, which might with advantage be deputed to persons holding less responsible positions. A man drawing £500 a year, occupying his time dealing with details which a junior clerk at £3 a week could look after equally well, shows that the organisa-

tion of the factory is unsatisfactory. It should be the duty of the principal and those holding responsible positions to examine their work from time to time, and arrange to train those under them to relieve them of pettifogging details, in order that their time may be free to deal with policy, principles, organisation and important matters and thus control and develop the organisation satisfactorily.

Methods of Payment

Considerable care should be taken in engaging any young persons who are to be apprenticed, as when their indentures have been signed they must be retained by the firm for several years. If proper care be given to the selection of apprentices and their technical training watched—and arrangements made whenever possible for suitable technical instruction in classes—the time and expense that may be incurred will be amply repaid to the firm in later years, as these will be well qualified craftsmen and women who are expert in their work.

In some well organised factories no young person is taken for training unless he or she is first examined by a doctor, who reports to the firm, and the form is filled up showing the applicant's record at school, the result of a month or two's trial in the factory and other suitable information. Unless such steps be taken, entirely unsuitable persons may possibly be engaged.

Record Keeping of Employees

The capacity of adults should be carefully considered before they are engaged, and unless they have proved themselves to be thoroughly efficient within a few weeks, it is well that they should be replaced by others more fully qualified. It is advisable that a record should be kept of each employee, and for this purpose a card index is very suitable. Each person's card should show the name

and address, number in the wages book, date of birth, brief details of any references obtained, wages rate, etc.

Any changes in wages should be recorded on the card, and notes as to misconduct, etc., and when the employee leaves the reasons should be clearly stated. The cards can be filed in alphabetical or numerical order, and sub-divided into departments, and when an employee leaves the card should be filed in the "dead" drawer. If an employee leaves and is re-engaged, the card is brought back again and a fresh record made on it, and the card will show a complete history of his service with the firm, the wages and any additional facts which may be desirable to enter on the card. A record of this kind is very useful in giving references when they are asked for, and deciding whether an employee is suitable for re-engagement.

The methods of payment of trade union workers are very largely controlled by agreements between trade unions and associations representing the employers, but even in these circumstances there is often a choice of payment between time and piece work rates. In industries where no such rigid agreements are in force, it is often possible to make arrangements to pay a bonus on outwork or by straight piece work, which enable an employee to earn more than on time rates, and the cost of production is less than when the work is produced on time. There are various methods of payment by results. Straight piece work, by which a definite price for each unit of production is agreed, is a very common form, and the worker then earns as much as he can without any guarantee of minimum earnings, and when the jobs are finished, his wages cease.

In many occupations a modified piecework method or bonus system has been introduced, and the employees may be guaranteed the ordinary time money, and in addition they can earn a

payment for each unit of work produced above an agreed quantity per hour.

Another method is to pay an increasing bonus as the output increases per hour. In both bonus systems the principle adopted is that each additional unit produced in a given time is so much more output on the same floor space, and, therefore, it pays the employer to pay more for the last 10% of articles produced, which are much more profitable to the employer than the first 90%.

Whatever method of payment by results is adopted, unless it is some rigid scheme which has been agreed by the trade unions, it is essential that the figures and method of payment should be carefully considered, and the results tabulated before the rates are agreed with the workers, as if the rates fixed are too high, the earnings may be abnormal and jealousy may be caused in other sections of the business where such rates are not prevalent. When the rates are too low, the employee cannot earn more than a moderate sum, and he is naturally dissatisfied.

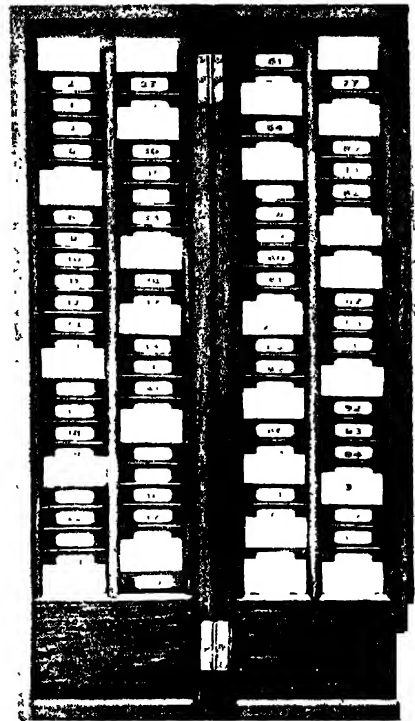
The rates should be carefully fixed, as, if they be too high, it is most unwise to reduce them, because the workers form the opinion that if they earn high wages their piece work rates will be reduced. The result will be that the employees will take care not to earn more than the wage they think the employer will approve. There are some employers who think they are doing a clever thing by paying only the minimum trade union rate of wages, or, if the employees are non-unionists, the wages are reduced as much as possible.

There are many employers who have long realised that the wisest policy is to pay such wages as will attract and retain good workers. The rate of wages paid per hour is of less importance than the wage cost per article produced, and a highly paid workman is often cheaper than one who is paid the minimum rate. When expensive

THE BLACK TIME RECORDERS.



The machine prints the hour and minute only, as with Patent Action the day of the week is not required. It is impossible for workers to register for days in advance. On the right are the Card Records.



P.T.R.

Form 210

No. 189

Name *A. J. Richards*

Week ending *March 26th* 1925

The illustration shows a reduced facsimile of a registration card on which the facts about a particular worker have been printed in the manner stated above. To ensure registration in the right space the card must be depressed to the full depth before the recording mechanism comes into operation.

| DAY | IN | OUT | IN | OUT | TOTAL |
|---------------|------|-----|------|-------|-------|
| F | 8 00 | | | 1 00 | 4 3/4 |
| | 2 00 | | | 5 30 | 3 1/2 |
| S | 8 00 | | | 12 30 | 4 1/2 |
| SU | | | | | |
| M | 8 24 | | | 1 01 | 4 1/2 |
| | 2 00 | | | 5 30 | 3 1/2 |
| T | 8 00 | | | 1 01 | 5 |
| | 2 00 | | | 6 01 | 4 |
| W | 8 01 | | | 1 02 | 5 |
| | 2 05 | | | 7 01 | 4 3/4 |
| T | 8 00 | | | 1 00 | 5 |
| | 1 58 | | | 5 30 | 3 1/2 |
| Overtime | | 47 | 1/6 | 3 10 | 6 |
| Total Wages | | 1 | 1/10 | 3 12 | 5 |
| Total Net Pay | | | | 3 11 | 8 |
| Amount Paid | | | | | |

The illustration shows a Special Card Rack, as used in factory control. This is a card rack, a rack usually placed on the other side of the clock is the main rack. The machine can register the cards at the rate of 50 a minute.

Supplied by the Black Time Recorders, Ltd.

machinery is used, it is a foolish policy to retain a worker who does not get the highest possible output from the machine, and keep it in good running order, when a higher wage would secure a man of exceptional ability. There are always great variations in the capabilities of workers, and an employer, by paying good wages to the ablest men, will encourage them and stimulate the remainder to merit higher wages by better work or increased output.

Part of the goodwill of every business exists in the brains and knowledge of the workers, who understand the needs of the customers, the class of work and the capacity of the machines. It is most desirable that this store of knowledge and ability should be used wherever possible, and some firms offer monetary prizes for suggestions made by the workers, which are adopted. The rewards should be quite liberal, in order to encourage suggestions, and some firms pay as much as the whole of the first year's economy resulting from any improvement to the employee who proposed it.

The leadership of men and women in industry is a difficult but most important problem at the present time, and those who have the gift of leadership bring to their task tact, judgment of character and sympathy with the problems of those who are under their control. The real leader in industry does not drive those whom he directs: he leads them, induces them to co-operate with and assist him in the work for which he is responsible, and creates that "team spirit," and the desire to develop a successful organisation, which is one of the striking and valuable features in factories which are well organised and wisely controlled.

The Welfare of Employees

When there is a large number of employees, it is possible to give them

many facilities and amenities which are beyond the capacity of small businesses. Welfare work in its broadest meaning is beneficial to the employees and helpful to the business. A canteen, where meals can be warmed up or cooked, and tea and coffee supplied, is desirable, particularly in districts where there are no proper facilities for obtaining meals in restaurants, etc. A cold meal taken in the factory, without any proper seating accommodation, is not nearly as beneficial as a properly cooked meal in a canteen where the atmosphere and surroundings are quite different from those of the workshop.

The Factory Act requires that band-aids, etc., for simple injuries should be placed in every department, and it is desirable that there should be some person with a knowledge of ambulance work, or even a nurse in very large factories, who should have a room for dealing with accidents or sickness, and all the appliances necessary for such work. The health of the employees is an important matter, as no one who is in poor health can be an efficient worker. Many firms find it advantageous, if they have a large staff, to arrange for the eyes of their employees to be examined occasionally, so that they may be advised about spectacles. Good eyesight is of the utmost importance in many industries, and many workers who are advancing in years become unconsciously less efficient because they have not realised that they should wear glasses of some kind.

Manufacturers with a large number of employees might consider arranging for a sports ground, clubs, sick funds, savings associations and similar forms of welfare work. All these add to the amenities of factory life and the well-being of the employees, and, if wisely administered, and the responsibility of the employees developed, they add to the *esprit de corps* of the whole organisation and are of considerable benefit.

IX

CHANGING METHODS

It is possible that any manufacturer reading this article will consider that the suggestions might be useful to an employer with ample capital and a wide experience when building a new factory. There are very few employers who are in this happy position. The great majority have buildings which were erected many years ago, and the plant which is in them is not new. But even in these existing factories continual changes are necessary, as machines wear out and are replaced by new ones, and improvements in manufacture are made.

Therefore, if a manufacturer is always seeking the best, cheapest and quickest methods of production, he will know what changes he should make when an opportunity arises. If a factory has been in existence for many years, and no radical change in the lay-out has been made, it is probable that the efficiency will be greatly increased and the cost of production lowered if a careful investigation were made by an expert in factory organisation, and a new lay-out would save time and simplify the work.

Scientific investigation for factory production is a modern science, and the work of the National Institute of Industrial Psychology is full of interest to manufacturers who are seeking improved methods. The Institute has a number of investigators who are trained in factory organisation and they examine the methods, movements and lay-outs of factories, and make suggestions for improving the working. A stranger coming into a factory can often see defects which are not noticed by a man who has grown up with the plant.

In addition to studying the physical lay-out and appliances, the investigators also study the attitude and outlook of the employees, and part

of their task is to find out the reason for any friction that may exist, which hinders the smooth working of the organisation. A considerable number of these careful investigations have been made in factories of all kinds, and the results have been very successful. By the elimination of unnecessary movements, by studying the most advantageous distribution of rest periods, improved conditions of lighting, ventilation and other factors, and better lay-out, very considerable economies have been made in various industries.

Costing Essential for Efficiency

No factory can be considered properly organised unless there is a good costing system in use in all the departments, and the figures are collected daily and weekly, and the results examined. The science of correct costing is a development of the twentieth century, and the war, with the great changes in the rates of wages and the cost of materials, stimulated the interest in the new methods. The Institute of Cost and Works Accountants, which was founded after the war, has improved the methods in many ways, and set up examination boards for cost accountants.

The principles of correct costing are explained in another chapter, but the value of the system lies not only in finding the cost of every product and in checking estimates, but also in detecting losses and leakages of various kinds, finding out where inefficiency exists, and aiding the management in many ways.

The detailed records, which in every business must be kept from day to day, will show the actual output from each worker or machine, or groups of workers or machines. The maximum output when the factory is working under pressure can be ascertained, and any output less than this optimum quantity must cost more per unit owing to the increased

overhead expenses. When there are machines of varying types and ages, producing the same work, the costing records will show which machines are producing more cheaply, and which are inefficient and should be scrapped. The unit of production may be 1,000 articles, a hundredweight, a gallon, or the number of productive or chargeable hours of work done. Whatever the basis may be, the results will show the management the additional amount of work that could be put through each department, and the amount of work done on each job each day.

This information can be elaborated or tabulated in various ways. A small job may be completed in a few days, or a large contract may spread over many months, but when the work has been planned, or "routed" as the Americans say, its progress through the various departments can be checked with the time table, so that the contract time for delivery may be kept. When repetition work or similar jobs are put through, it is possible to compare the previous best records with the current time or costs, and thus key-up the efficiency to the highest level. Any person who has held a high executive position in a factory with a good costing system, will realise its potent help in reducing costs, increasing efficiency and aiding the management to keep in touch with all the multifarious details with a minimum of difficulty.

Value of Standardisation

In many industries there is a great multiplicity of sizes, styles and patterns of materials, parts and stocks of goods, and the movement for standardisation—or as it is called in America "simplification"—will lead to a considerable reduction in cost when carefully developed. The great variety of sizes and patterns greatly increases the capital locked up in materials and goods, and the expense incurred by insurance, storage, hand-

ling and depreciation of stock. In some industries standardisation has been undertaken by the Federations representing the employers, but, apart from these national movements for simplification, each manufacturer can do a great deal in his own factory by definitely standardising his lines of goods. Whether he makes his own proprietary articles, or manufactures to the order of his customers, he can standardise his machines, materials, patterns, instructions, etc.

Various industries have in recent years considerably reduced the number of patterns. For instance, by standardising colliery rails the number of patterns has been reduced from 500 to 14. The electrical industry has introduced standardization with very great advantage, and recently the methods of dealing in paper have been simplified, and 1,000 sheets, with the advantages of decimal calculations, has been adopted as a basis for all calculations, instead of the ream containing a variable number of sheets. These are examples of improvements made by industries, but similar advantages can be obtained in every factory if the management standardise the patterns and methods.

For instance, a steel pen maker has reduced the number of patterns of nibs from 250 to under 100, abandoning those with very small sales. The result has been that his total sales have not decreased. Probably in most factories these methods of standardisation and simplification could be adopted, and the costs of production thereby reduced.

Invention is progressing rapidly, new processes are being discovered daily, and new machines are being patented in increasing numbers. The result is that the rate of change in the methods of production is greater now than it was a generation ago, and, therefore, any manufacturer, if he desires to maintain or improve his position and not drop behind in the race for efficiency, must ever be

seeking new methods and improved processes. The machines and systems of a generation ago are useless to-day, and what is the best to-day will be obsolete fifteen or twenty years hence.

Success can only come to those who are ceaselessly vigilant and ever seeking the newer and better ways of manufacturing. Because a man has been successful in the past is no proof that his methods are the best to-day, or that his factory is fitted to meet the intensified competition of the future. The progressive manufacturer who will succeed desires to learn from anyone, and will always be investigating new processes; he will at all times be ready to discard a machine, a process or a method, as soon as he has found an improved method of working. If a manufacturer could arrange to take a long business holiday, to visit

other countries or other factories, trade exhibitions or conferences, he would find the time would be well spent and the knowledge and information thus obtained would be of great help to him in developing his factory on the most modern and successful lines.

The need of the whole world is for the cost of commodities to be reduced. The best way to obtain this reduction is by increasing efficiency. An increase in efficiency can only be attained by improved methods, better machinery and a detailed examination of all the factors of production. The rewards to the progressive manufacturer, who has a well organised and highly efficient factory, are certain, and equally sure is the failure of those reactionary manufacturers who believe that what was good enough for the past is good enough for the present.



CHAPTER XII

COST ACCOUNTS AND MANUFACTURING DEPARTMENTAL ACCOUNTS

The Nature of Departmental Accounts Exemplified—The Nature of Cost Accounts and Cost Sheets—How they Differ—How Applied to various Businesses—The Treatment of Establishment Charges—Examples of various Output Cost Sheets—Hourly Machine Rates and how they are Fixed—Some difficult cases of Costing—Running or Working Costs.

THERE is no doubt that in recent years improved systems of manufacturing account keeping have been called into existence to meet keener competition. Manufacturers and merchants alike have frequently to be content with small margins of profit and they have to rely more and more on improved methods in production. A scientific system of costing is not the least important of these methods; while prices have often to be cut to a fine margin, it is folly to do so unless it is perfectly certain that the fixing of prices is above the *known* limits of remunerative production.

The experience of American manufacturers has led many large British firms to examine afresh their productive methods, especially in relation to paying workmen on the basis of results. This method is, of course, not unknown in this country; it is the practice, where it is possible of adoption, of many very large concerns.

One company noted for its great success in mass production testifies to the undeniable advantage of the adoption of methods whereby labour is rewarded in due relation to time saved. Mr. Keene of the Austin Motor Coy. says: "The effective awakening of the workers' interest in the problem of saving time can best be brought about by giving him an immediate and fitting reward for

extra effort put forward, the amount being directly proportional to that effort in quantity terms, no matter what grade of labour is represented. . . . More time saved tends towards lowered costs, lowered price to the consumer, greater volume of trade, greater employment accompanied by greater distribution of wages and salaries, together with larger individual earnings and withal profits to ensure the stability of the undertaking and to safeguard the livelihood of all those engaged in it, whose united efforts have built it up and maintain it."

We shall take Manufacturing Departmental Accounts first, because Cost Accounts are often simply subdivisions of manufacturing accounts. Cost Accounts will be, therefore, more easily understood if the principle of departmental account keeping is thoroughly grasped.

Departmental Results

The manufacturer cannot *estimate* departmental results with anything like the same certainty that a merchant or trading firm can do. As the present writer has said elsewhere, "Approximate results of departmental *trading* may be arrived at by a rough calculation, based on the percentage of difference between the purchase and selling prices of certain classes of goods; but such haphazard methods

applied to *manufacturing* departmental accounts would prove wholly unreliable. The cost price of a manufacturer's goods embraces cost of raw materials and factory stores, manufacturing wages and expenses, motive power, proportion of rent and taxes, maintenance, machinery depreciation and repairs, and various other charges.

The nature and multiplicity of these various outlays prevent approximate results being reckoned up satisfactorily as the work proceeds, or even after completion, unless proper accounts are kept. This is specially true where there are several manufacturing departments, or processes.

"For book-keeping purposes each manufacturing department ought to be regarded as independent. All material used, wages paid, and every expense chargeable against a particular department, should be debited to the Departmental Account. The value of the work turned out by the department is placed on the credit side of the account, if the business is one which admits of a trade value being put on the work turned out. The balance of the account will show whether the department, as a whole, has proved remunerative. If a value cannot properly be put on the work of any particular process of manufacture, the balance of the process account may be simply transferred to the debit of the Trading or Manufacturing Account."

An Example

Take, as an example, the accounts of a Woollen Spinning and Weaving Mill. We shall assume that the two departments, spinning and weaving, have to show separate results. A manufacturing account for each is, therefore, required. In the first place, then, provision must be made in the various books for showing separately the purchases, productive expenses and the general expenses, as well as the sales pertaining to the two departments; further, these items

should be dissected to show, under separate headings, classified totals.

The various accounts present no special difficulty; the book-keeping principles are just the same as those of a trading concern. Just as a profit and loss account shows a profit or loss on trading, so a manufacturing departmental account shows a profit or loss on manufacturing, if the manufactured article has a fixed selling price attached to it. The total cost of manufacture is the equivalent to the purchase price of the finished goods purchased by a merchant firm.

It will make the subject more clear if we select one particular industry by way of illustration. We shall take, therefore, the instance of a spinning and weaving concern, and confine our attention to two departments only, namely, spinning and weaving.

The purchase day book, and the personal accounts in the purchase ledger, as well as the cash book and other subsidiary books, are kept in exactly the same way as explained in the chapter on Bookkeeping in Vol. I.

On another page we have also exemplified the object of the Purchases Analysis Book in the case of a trader. Such an Analysis Book is a necessity in the case of manufacturing departmental accounts.

The Separate Accounts

Our object is to frame separate trading (or manufacturing) accounts for the Spinning Department, and for the Weaving Department. We shall take spinning first.

For the processes of manufacture the spinner requires wool, which is the raw material he starts with. An account is, therefore, required for (a) Wool, and, likewise, (b) Tops, the combed wool used by the spinner, and for (c) Warps and Wefts, being the yarn ready for weaving, and (d) Noils and Waste; the former is a by-product, which, along with waste, is saleable.

These four different accounts are written up, will appear as below. at the end of the year merged into First, there are the various expense the final Spinning Trading Account. accounts (written up from the Pur- The various subsidiary accounts, when chases Analysis Book, etc.).

WAGES ACCOUNT.

| Particulars. | | Total Wages. | | | Spinning. | | | Weaving. | | | Motive Power. | | | Repairs. | | | Particulars. | | Amount. | | |
|--------------|----------------|--------------|----|----|-----------|----|----|----------|----|----|---------------|----|----|----------|----|----|--------------|-----------------|---------|----|----|
| | | £ | s. | d. | £ | s. | d. | £ | s. | d. | £ | s. | d. | £ | s. | d. | | | £ | s. | d. |
| 1927 | To Wages Paid | 400 | 1 | 6 | 311 | 1 | 6 | 214 | 10 | 0 | 21 | 3 | 6 | 7 | 1 | 0 | 1927 | By Spinning a/c | 4,200 | 1 | 6 |
| Jan. 7 | " " " | | | | | | | | | | | | | | | | " | " Weaving a/c | 2,719 | 2 | 6 |
| " 14 | " " " | | | | | | | | | | | | | | | | " | " Motive | | | |
| " 21 | " " " | | | | | | | | | | | | | | | | " | " Power a/c | 479 | 8 | 6 |
| and so | " " " | | | | | | | | | | | | | | | | " | " Machinery | | | |
| on | " " " | | | | | | | | | | | | | | | | " | " Repairs a/c | 67 | 0 | 6 |
| weekly | " " " | | | | | | | | | | | | | | | | | | | | |
| | Total for Year | 7,465 | 13 | 0 | 4,200 | 1 | 6 | 2,719 | 2 | 6 | 479 | 8 | 6 | 67 | 0 | 6 | | | 7,465 | 13 | 0 |

NOTE.—The wages paid are debited to this account weekly. An abstract is made from the Wages Sheets to show amounts chargeable against the various departments. These totals are transferred at the end of the year to the corresponding accounts in the Ledger.

RENT, TAXES, WATER AND LIGHTING ACCOUNT.

| | | | Rent and Taxes | | | Water and Lighting. | | | | | | Rent and Taxes. | | | Water and Lighting. | | |
|---------|-----------------------|--|----------------|----|----|---------------------|----|----|---------|-----------------|--|-----------------|----|----|---------------------|----|----|
| | | | £ | s. | d. | £ | s. | d. | | | | £ | s. | d. | £ | s. | d. |
| 1927 | | | | | | | | | 1927 | | | | | | | | |
| Mar. 31 | To Purchases Journal. | | 251 | 3 | 8 | 36 | 5 | 0 | Dec. 31 | By Spinning a/c | | 800 | 10 | 8 | 114 | 16 | 0 |
| June 30 | " " " | | 254 | 3 | 8 | 36 | 12 | 0 | " | " Weaving a/c | | 216 | 4 | 0 | 40 | 2 | 0 |
| July to | " " " | | | | | | | | | | | | | | | | |
| Dec. | " " " | | 508 | 7 | 2 | 82 | 1 | 0 | | | | | | | | | |
| | | | 1,016 | 14 | 6 | 154 | 18 | 0 | | | | 1,016 | 14 | 6 | 154 | 18 | 0 |

CARRIAGE ACCOUNT.

| | | | Spinning. | | | Weaving. | | | | | | | | |
|---------|----------------------------|-----------|-----------|----|----|----------|----|----|---------|-----------------------|---------------------|-----|----|----|
| | | | £ | s. | d. | £ | s. | d. | | | | £ | s. | d. |
| 1927 | To Purchases Journal . . . | | 13 | 5 | 0 | 2 | 7 | 0 | 1927 | By Spinning a/c . . . | | 114 | 6 | 6 |
| Jan. 31 | " | " " . . . | 10 | 7 | 0 | 2 | 1 | 6 | Dec. 31 | " | " Weaving a/c . . . | 12 | 7 | 0 |
| Feb. 28 | " | " " . . . | | | | | | | " | | | | | |
| Mch. to | " | " " . . . | 90 | 14 | 6 | 7 | 18 | 6 | | | | | | |
| Dec. | " | " " . . . | | | | | | | | | | | | |
| | | | 114 | 6 | 6 | 12 | 7 | 0 | | | | | | |
| | | | | | | 114 | 6 | 6 | | | | | | |
| | | | | | | 126 | 13 | 6 | | | | 126 | 13 | 6 |

GENERAL EXPENSES ACCOUNT.

| | | Stationery. | | | Sundry Expenses. | | | Postages. | | | | | Stationery. | | | Sundry Expenses. | | | Postages. | | | |
|---------|----------------------|-------------|----|----|------------------|----|----|-----------|----|----|---------|-----------------|-------------|----|----|------------------|----|----|-----------|----|----|----|
| | | £ | s. | d. | £ | s. | d. | £ | s. | d. | | | £ | s. | d. | £ | s. | d. | £ | s. | d. | |
| 1927 | To Purchases Journal | 5 | 3 | 0 | 2 | 0 | 0 | 5 | 3 | 11 | 0 | 1927 | | £ | s. | d. | £ | s. | d. | £ | s. | d. |
| Jan. 31 | " " " | 5 | 2 | 0 | 1 | 19 | 6 | 2 | 14 | 6 | Dec. 31 | By Spinning a/o | 21 | 4 | 0 | 26 | 2 | 8 | 9 | 10 | 6 | |
| Feb. 28 | " " " | | | | | | | | | | " | " Weaving a/o | 11 | 19 | 0 | 8 | 9 | 0 | 8 | 14 | 0 | |
| Mch. to | | | | | | | | | | | | | | | | | | | | | | |
| Dec. | " " " | 24 | 18 | 0 | 27 | 12 | 0 | 11 | 19 | 0 | | | | | | | | | | | | |
| | | 33 | 3 | 0 | 31 | 11 | 6 | 18 | 4 | 6 | | | 33 | 3 | 0 | 31 | 11 | 6 | 18 | 4 | 6 | |
| | | | | | | | | 31 | 11 | 6 | | | | | | | | | 31 | 11 | 6 | |
| | | | | | | | | 33 | 3 | 0 | | | | | | | | | 33 | 3 | 0 | |
| | | | | | | | | 82 | 19 | 0 | | | | | | | | | 82 | 19 | 0 | |

212 COST AND MANUFACTURING DEPARTMENTAL ACCOUNTS

GENERAL STORES ACCOUNT.

| Particulars. | | | Total Dr. | Particulars. | | | Spin- ning. | Weav- ing. | Motive Power. | Re- pairs. | Total Cr. |
|--------------|-------------------|--|-----------|--------------|-------------------|--|----------------|---------------|------------------|---------------|-----------|
| | | | £ s. d. | | | | £ s. d. | £ s. d. | £ s. d. | £ s. d. | £ s. d. |
| 1927 | | | | 1927 | | | | | | | |
| Jan. 31 | To Purchases JI. | | 112 0 6 | Jan. 31 | By Stores Issued | | | | | | |
| Feb. 28 | " " " | | 44 6 0 | Feb. 28 | " " " | | | | | | |
| Mch. to Dec. | " " " | | 259 17 0 | Mch. to Dec. | " " " | | | | | | |
| | | | | | Total for Year | | 23 11 0 | 51 1 0 | 50 6 0 | 56 5 6 | 181 3 6 |
| | | | | Dec. 31 | By Stores on hand | | | | | | 235 0 0 |
| | | | 416 3 6 | | | | | | | | 416 3 6 |
| 1928 | | | | | | | | | | | |
| Jan. 1 | To Stores on hand | | 235 0 0 | | | | | | | | |

NOTE.—The Stores purchased for general use are debited to this account through the Purchase Journal; the storekeeper charges through a Stores Issued Book the stores issued to the departments, the amounts being credited to the Stores account. The balance is approximately the stores in hand, any slight difference between the actual valuation at Stocktaking and the balance of this Account will have to be written off and charged to the Trading Account.

MOTIVE POWER ACCOUNT.

| | | | Fuel. | Stores. | Wages. | | | | Fuel. | Stores. | Wages. |
|---------|-----------------|--|----------|---------|---------|---------|-----------------|--|----------|---------|---------|
| | | | £ s. d. | £ s. d. | £ s. d. | | | | £ s. d. | £ s. d. | £ s. d. |
| 1927 | | | | | | 1927 | | | | | |
| Dec. 31 | To Purchases JI | | 395 14 6 | | | Dec. 31 | By Spinning a/c | | 230 16 0 | 25 1 0 | 300 7 0 |
| " | " Stores a/c | | | 50 6 0 | | " | " Weaving a/c | | 104 18 6 | 25 5 0 | 179 1 6 |
| " | " Wages a/c | | | | 479 8 6 | | | | | | |
| | | | 395 14 6 | 50 6 0 | 479 8 6 | | | | 395 14 6 | 50 6 0 | 479 8 6 |

MACHINERY REPAIRS ACCOUNT.

| | | | Stores. | Wages. | | | | Stores. | Wages. |
|---------|------------------|--|---------|---------|---------|-----------------|--|---------|---------|
| | | | £ s. d. | £ s. d. | | | | £ s. d. | £ s. d. |
| 1927 | | | | | 1927 | | | | |
| Dec. 31 | To Stores Issued | | 56 5 6 | | Dec. 31 | By Spinning a/c | | 29 11 6 | 31 10 6 |
| " | " Wages a/c | | | 67 0 6 | " | " Weaving a/c | | 26 14 0 | 35 10 0 |
| | | | 56 5 6 | 67 0 6 | | | | 56 5 6 | 67 0 6 |

MACHINERY AND PLANT ACCOUNT.

| | | | SPINNING DEPT. | | | WEAVING DEPT. | | | ENGINES. | Date. | Gr. Amount. | | |
|----------|--------------------------------|--|----------------|-----------------|----------------|-----------------|--|----------------------------|----------|------------------|-------------|----|----|
| | | | Total. | Machin- ery. | Cards, etc. | Machin- ery. | Robbins, Shuttles, and Skips. | Rollers and Gearing. | | | £ | s. | d. |
| 1927 | | | | | | | | | | | | | |
| Jan. 1 | To Balance b/d. | | 14,270 0 0 | 7,500 0 0 | 547 19 3 | 4,927 13 0 | 551 7 0 | 760 0 9 | Sept. 21 | By old loom sold | 15 | 0 | 0 |
| Mch. 15 | " Purchases | | 260 10 0 | | 260 10 0 | | | | Dec. 31 | " Depreciation | 1,162 | 6 | 0 |
| June 30 | " " " | | 126 10 0 | | | | 126 10 0 | | | " Balance c/d. | 13,672 | 13 | 0 |
| Aug. 12 | " " " | | 193 0 0 | | | | | 193 0 0 | | | | | |
| | | | 14,850 0 0 | 7,500 0 0 | 808 9 3 | 4,927 13 0 | 680 17 0 | 953 0 9 | | | | | |
| Sept. 21 | Less old loom sold, per contra | | 15 0 0 | | | 15 0 0 | | | | | | | |
| | | | 14,835 0 0 | 7,500 0 0 | 808 9 3 | 4,912 13 0 | 680 17 0 | 953 0 9 | | | | | |
| Dec. 31 | Less depreciation, per contra | | 1,162 6 3 | 400 0 0 | 241 10 0 | 313 10 6 | 145 17 0 | 61 8 9 | | | | | |
| 1928 | | | | | | | | | | | | | |
| Jan. 1 | To Balance b/d. | | 13,672 13 9 | 7,100 0 0 | 566 19 3 | 4,599 2 6 | 515 0 0 | 891 12 0 | | | | | |

COST AND MANUFACTURING DEPARTMENTAL ACCOUNTS 213

We have next to consider in some detail the sectional accounts which go to make up the final Spinning Trading Account.

SPINNING DEPARTMENT.

WOOL ACCOUNT.

| 1927 | | £ | s. | d. | 1927 | | £ | s. | d. |
|--------------|--------------------|--------|----|----|---------|------------------------------|--------|----|----|
| Jan. 1 | To Stock on hand . | 1,450 | 0 | 0 | Jan. 16 | By Allowances . | 24 | 0 | 0 |
| Jan. 31 | „ Purchases . | 2,100 | 6 | 0 | Dec. 31 | „ Stock on hand . | 1,300 | 0 | 0 |
| Feb. 28 | „ Do. . | 861 | 0 | 0 | „ | „ Balance to Trading a/c . . | 18,360 | 6 | 0 |
| Mch. to Dec. | „ Do. . | 15,273 | 0 | 0 | | (being Wool used) | | | |
| | | 19,684 | 6 | 0 | | | 19,684 | 6 | 0 |

TOPS ACCOUNT.

| 1927 | | £ | s. | d. | 1927 | | £ | s. | d. |
|--------------|--------------------|-----|----|----|---------|--------------------|-----|----|----|
| Jan. 1 | To Stock on hand . | 71 | 10 | 0 | Dec. 31 | By Stock on hand . | 72 | 15 | 6 |
| Jan. to Dec. | „ Purchases . | 609 | 11 | 0 | „ | „ Trading a/c . | 608 | 5 | 6 |
| | | 681 | 1 | 0 | | | 681 | 1 | 0 |

NOILS AND WASTE ACCOUNT.

| 1927 | | £ | s. | d. | 1927 | | £ | s. | d. |
|---------|--------------------|-----|----|----|---------|---------------------------------|-----|----|----|
| Jan. 1 | To Stock on hand . | 29 | 15 | 0 | Dec. 31 | By Sales . | 523 | 15 | 6 |
| Dec. 31 | „ Trading a/c . | 519 | 16 | 0 | „ | „ Stock on hand . | 25 | 15 | 6 |
| | | 549 | 11 | 0 | | | 549 | 11 | 0 |
| | | | | | | (The Sales are posted monthly.) | | | |

WARPS AND WEFTS ACCOUNT.

| 1927 | | £ | s. | d. | 1927 | | £ | s. | d. |
|---------|--------------------------------|--------|----|----|---------|---|--------|----|----|
| Jan. 1 | To Stock on hand . | 516 | 11 | 0 | Dec. 31 | By Sales . | 17,111 | 5 | 0 |
| Dec. 31 | „ Trading a/c (Yarn produced.) | 28,713 | 10 | 6 | „ | „ Do. Weaving Department . | 11,016 | 2 | 6 |
| | | 29,230 | 1 | 6 | „ | „ Stock on hand . | 1,102 | 14 | 0 |
| | | | | | | | 29,230 | 1 | 6 |
| | | | | | | (The Sales are entered up in monthly totals.) | | | |

Explanation

The debits in the Wool Account are made from the monthly totals of the Purchases Analysis Book. When these purchases are added to the stock at the beginning of the year, and the stock at the end of the year is deducted, as shown in the above account, the balance represents the value of the wool actually used. This

balance is carried as a debit to the final Spinning Account shown on the next page. The Tops Account is dealt with in the same way.

The Noils and Waste Account shows the value of noils and waste sold. In this case, as representing a profit, the balance is transferred to the credit of the Spinning Trading Account, as will be seen on the next page.

The Warps and Wefts Account is in the nature of a Stock Account and it is credited with the Sales and Warps and Wefts used in the Weaving Department. (The raw material and wages, it will be observed, are charged up in the Trading Account.)

The Trading Accounts

Next is the Spinning Trading Account (which is divided into two sections, and explains itself). The

debits are (1) the Wool used, and the value of the Tops bought in; (2) manufacturing wages, and expenses. And the second part of the account includes (1) establishment expenses and general expenses, and (2) depreciation. All the items are debited in the usual way as transfers from the various Expenses Accounts which have been written up from the subsidiary books—purchases book analysis, cash book, or journal, as the case may be.

SPINNING TRADING ACCOUNT.

| | £ | s. | d. | £ | s. | d. | | £ | s. | d. | £ | s. | d. |
|--------------------------------------|--------|----|----|--------|----|----|--------------------------|--------|----|----|--------|----|----|
| To Wool used . . . | 18,360 | 6 | 0 | | | | By Warps and Wefts . . . | 28,713 | 10 | 6 | | | |
| „ Tops . . . | 608 | 5 | 6 | | | | „ Noils and Waste . . . | 519 | 16 | 0 | 29,233 | 6 | 6 |
| „ Allowances . . . | 31 | 2 | 6 | 18,999 | 14 | 0 | | | | | 29,233 | 6 | 6 |
| „ Balance c/d . . . | | | | 10,233 | 12 | 6 | | | | | | | |
| | | | | 29,233 | 6 | 6 | | | | | 29,233 | 6 | 6 |
| <i>Manufg. Exps.</i> | | | | | | | By Balance b/d . . . | | | | 10,233 | 12 | 6 |
| To Carriage . . . | 114 | 6 | 6 | | | | | | | | | | |
| „ Wages (Mfg.) . . . | 4,200 | 1 | 6 | | | | | | | | | | |
| „ Oils and Soaps . . . | 213 | 4 | 0 | | | | | | | | | | |
| „ Cleaning Machinery, etc. . . | 13 | 6 | 6 | | | | | | | | | | |
| „ Banding . . . | 45 | 16 | 4 | | | | | | | | | | |
| „ Machinery Repairs . . . | 61 | 2 | 0 | | | | | | | | | | |
| „ Sundry Stores . . . | 23 | 11 | 0 | 4,671 | 7 | 10 | | | | | | | |
| „ Balance c/d . . . | | | | 5,562 | 4 | 8 | | | | | | | |
| | | | | 10,233 | 12 | 6 | | | | | 10,233 | 12 | 6 |
| <i>Establishmt. Exps.</i> | | | | | | | By Balance b/d . . . | | | | 5,562 | 4 | 8 |
| To Motive Power . . . | 616 | 4 | 0 | | | | „ Discounts . . . | | | | 249 | 16 | 0 |
| „ Water and Lighting . . . | 114 | 16 | 0 | | | | | | | | | | |
| „ Rent and Taxes . . . | 800 | 10 | 6 | | | | | | | | | | |
| „ Repairs, Premises . . . | 51 | 4 | 0 | | | | | | | | | | |
| „ General Exps. . . | 56 | 17 | 0 | 1,639 | 11 | 6 | | | | | | | |
| <i>General Exps.</i> | | | | | | | | | | | | | |
| To Salaries . . . | 610 | 18 | 6 | | | | | | | | | | |
| „ Travelling Expenses . . . | 259 | 10 | 0 | 870 | 6 | 6 | | | | | | | |
| <i>Depreciation.</i> | | | | | | | | | | | | | |
| To Machinery, etc. . . | 641 | 10 | 0 | | | | | | | | | | |
| „ Boilers and Gearing . . . | 30 | 15 | 9 | 672 | 5 | 9 | | | | | | | |
| | | | | 3,182 | 3 | 9 | | | | | | | |
| „ Balance, Profit and Loss a/c . . . | | | | 2,629 | 16 | 11 | | | | | | | |
| | | | | 5,812 | 0 | 8 | | | | | 5,812 | 0 | 8 |

The credits are also in the usual way posted from the Sales Day Book, being the value of the yarn sold and produced.

The distribution of establishment expenses may present difficulties; the principles usually followed are explained on later pages.

The Weaving Department

The next department is the Weaving Department. The particular factory accounts required in this instance are (a) Warps and Wefts; (b) Dyeing; (c) Warehouse Accounts (or Sales), and (d) Weaving Trading account. The accounts will appear as follows:—

WEAVING DEPARTMENT.

WARPS AND WEFTS ACCOUNT.

| 1927 | | £ | s. | d. | 1927 | | £ | s. | d. |
|---------|--------------------|--------|----|----|---------|-------------------------|--------|----|----|
| Jan. 1 | To Stock on hand . | 218 | 15 | 6 | Dec. 31 | By Stock on hand . | 679 | 10 | 6 |
| Dec. 31 | „ Spinning Dep. . | 11,016 | 2 | 6 | „ | „ Trading a/c . | 10,924 | 15 | 0 |
| „ | „ Purchases . | 369 | 7 | 6 | | (Warps and wefts used.) | | | |
| | | 11,604 | 5 | 6 | | | 11,604 | 5 | 6 |

DYEING ACCOUNT.

| 1927 | | £ | s. | d. | 1927 | | £ | s. | d. |
|--------------|--------------------------------|-----|----|----|---------|--------------------|-----|----|----|
| Jan. 1 | To Stock (Dyestuffs) on hand . | 60 | 14 | 6 | Dec. 31 | By Stock on hand . | 56 | 13 | 6 |
| Jan. to Dec. | „ Purchases . | 604 | 19 | 0 | „ | „ Trading a/c . | 609 | 0 | 0 |
| | | 665 | 13 | 6 | | | 665 | 13 | 6 |

WAREHOUSE ACCOUNT (SALES).

| 1927 | | £ | s. | d. | 1927 | | £ | s. | d. |
|--------------|-------------------------|--------|----|----|--------------|-------------------|--------|----|----|
| Jan. 1 | To Stock on hand . | 2,116 | 2 | 6 | Jan. to Dec. | By Sales . | 17,444 | 10 | 6 |
| Jan. to Dec. | „ Returns . | 144 | 7 | 6 | Dec. 31 | „ Stock on hand . | 2,009 | 8 | 0 |
| Dec. 31 | „ Balance Trading a/c . | 17,193 | 8 | 6 | | | 19,453 | 18 | 6 |
| | | 19,453 | 18 | 6 | | | 19,453 | 18 | 6 |

The Three Accounts Explained

The first debit in the Warps and Wefts Account, it will be seen, is the value of the work done by the Spinning Department, the amount being simply a transfer from the Warps and Wefts Account of that department.

The balance of this account represents the warps and wefts *used* by the Weaving Department; that balance

is transferred to the debit of the Weaving Trading Account, as it forms part of the cost of the manufactured goods. And so in the case of the Dyeing Account.

The Warehouse Account shows the output of cloth by the mill for the period, the sales being the amount actually realised, as shown by the Sales Book, the stock being at valuation price.

216 COST AND MANUFACTURING DEPARTMENTAL ACCOUNTS

The next is the Weaving Trading Account, which will be as follows :—

WEAVING TRADING ACCOUNT.

| | £ | s. | d. | £ | s. | d. | | £ | s. | d. | £ | s. | d. |
|--------------------------------|--------|----|----|--------|----|----|--------------------------------------|--------|----|----|--------|----|----|
| To Warps and Wefts | 10,924 | 15 | 0 | | | | By Finished Goods, per Warehouse a/c | 17,193 | 8 | 6 | | | |
| „ Dyeing | 609 | 0 | 0 | 11,533 | 15 | 0 | | | | | | | |
| Balance o/d | | | | 5,659 | 13 | 6 | | | | | 17,193 | 8 | 6 |
| | | | | 17,193 | 8 | 6 | | | | | | | |
| <i>Manufg. Exps.</i> | | | | | | | By Balance b/d | | | | 5,659 | 13 | 6 |
| To Carriage | 12 | 7 | 0 | | | | | | | | | | |
| „ Wages (Mfg.) | 2,719 | 2 | 6 | | | | | | | | | | |
| „ Packing | 14 | 15 | 0 | | | | | | | | | | |
| „ Sundry Expenses | 40 | 1 | 3 | | | | | | | | | | |
| „ Machinery Repairs | 62 | 4 | 0 | | | | | | | | | | |
| „ Sundry Stores | 51 | 1 | 0 | 2,899 | 10 | 9 | | | | | | | |
| „ Balance c/d | | | | 2,760 | 2 | 9 | | | | | | | |
| | | | | 5,659 | 13 | 6 | | | | | 5,659 | 13 | 6 |
| <i>Establmnt. Exps.</i> | | | | | | | By Balance b/d | | | | 2,760 | 2 | 9 |
| To Motive Power | 309 | 5 | 0 | | | | | | | | | | |
| „ Water and Lighting | 40 | 2 | 0 | | | | | | | | | | |
| „ Rent and Taxes | 216 | 4 | 0 | | | | | | | | | | |
| „ Premises Repairs | 20 | 5 | 6 | | | | | | | | | | |
| „ General Exps. | 26 | 2 | 0 | 611 | 18 | 6 | | | | | | | |
| <i>General Trade Exps.</i> | | | | | | | | | | | | | |
| To Salaries | 560 | 19 | 6 | | | | | | | | | | |
| „ Travels Exps. | 350 | 10 | 0 | 911 | 9 | 6 | | | | | | | |
| <i>Depreciation.</i> | | | | | | | | | | | | | |
| To Machinery | 459 | 7 | 6 | | | | | | | | | | |
| „ Boilers and Gearing | 30 | 13 | 0 | 490 | 0 | 6 | | | | | | | |
| „ Balance, Profit and Loss a/c | | | | 746 | 14 | 3 | | | | | | | |
| | | | | 2,760 | 2 | 9 | | | | | 2,760 | 2 | 9 |

The above account corresponds closely to the Spinning Trading Account and requires no further explanation than has been given on a previous page. And finally there come the Profit and Loss Account and the Balance Sheet.

PROFIT AND LOSS ACCOUNT.

| 1927 | | £ | s. | d. | 1927 | | £ | s. | d. |
|---------|---------------------------------|-------|----|----|---------|-----------------|-------|----|----|
| Dec. 31 | To Interest | 113 | 13 | 0 | Dec. 31 | By Spinning a/c | 2,629 | 16 | 11 |
| „ | „ Directors' and Auditor's Fees | 525 | 0 | 0 | „ | „ Weaving a/c | 746 | 14 | 3 |
| „ | „ Bad Debts | 40 | 3 | 6 | „ | „ Transfer Fees | 4 | 5 | 0 |
| „ | „ Balance—Net profit | 2,701 | 19 | 8 | | | | | |
| | | 3,380 | 16 | 2 | | | 3,380 | 16 | 2 |

| THE PRINTING CO., LTD. | | | | |
|--|--|------|-----------------------------|------|
| TABLE OF PERCENTAGES (ON NET TURNOVER) FOR QUARTER ENDED 31ST MARCH, 1927. | | | | |
| | Three Months Ending Mar. 31, '27 | | Year Ending Dec. 31, '26 | |
| | % | % | % | % |
| Materials Used :— | | | | |
| Ink | 5.0 | | 5.0 | |
| Paper | — | 5.0 | — | 5.0 |
| Wages :— | | | | |
| Compositors | 15.0 | | 14.7 | |
| Machine Room | 20.0 | | 19.4 | |
| Foundry | 7.1 | | 7.2 | |
| Warehouse | 20.0 | 62.1 | 21.9 | 63.2 |
| Supplies :— | | | | |
| Compositors | .2 | | .2 | |
| Machine Room | 1.9 | | 1.7 | |
| Foundry | .4 | | .3 | |
| Warehouse | 1.6 | 4.1 | 1.7 | 3.9 |
| Enclosure Fees | | .1 | | .1 |
| Power, Light and Water | | 1.3 | | 1.4 |
| Carriage and Cartage | | 1.6 | | 1.7 |
| National Insurance | | .8 | | .8 |
| Office Wages and Salaries, etc. | | 4.2 | | 4.3 |
| Plant Repairs and Electrical Supplies | | 1.2 | | 1.1 |
| Depreciation | | 3.5 | | 4.3 |
| <i>Net Profit on Turnover</i> | | 16.1 | | 14.2 |

COST ACCOUNTS AND SHEETS

In no department has the benefit of organisation been so significant as in the adoption of cost accounts.

Nowadays, every well-organised manufacturing concern employs a system of costing, consisting of analysed records providing reliable data which not only serve the purpose of testing the accuracy of estimates as against actual costs, but also of fixing prices, and providing data for estimating for future work.

The organisation of Cost Accounts is of supreme importance to every manufacturer. The manufacturer of former days arrived at his costs by guesswork; competition was not so keen then as it is now, and the manufacturer could afford to allow a broad margin in his estimates for miscalculations. To-day, however, the adjusting of prices to meet competition rarely leaves room for more

than a close margin of profit. Indeed, the intelligent and economic management of a manufacturing business is now impossible without a rigid system of Cost Accounts.

In manufacturing businesses in particular a sound system of Cost Accounts will reveal things that a Profit and Loss will not explain. The fixing of selling prices to meet competition is too often haphazard; a cut price, provided it leaves some margin of profit, may be necessary. But should there be many processes involved in the manufacture of an article, and no Cost Accounts kept, it may come too late as a revelation to the manufacturer that economies in the workshop should have preceded a reduction in price. From the figures supplied by Cost Accounts, and from experience of selling costs, an almost scientific accuracy in forecasting gross profits, in certain businesses, is possible.

The subject of Cost Accounts is a large one, and, in certain kinds of business, a very complicated one. Those engaged in particular industries should make it their business to study Cost Accounts in relation to the industries with which they are connected. It must not be supposed that Cost Accounts are of interest only to those engaged in manufacturing industries. The principles underlying them are analogous to the use of percentages, and the application of statistical records in arriving at comparative results in non-manufacturing businesses.

The main objects of Cost Accounts are :—

(1) To show in detail the cost, in materials, wages, overhead charges and establishment charges, of manufacturing an article—not only the final cost, but the cost at each stage, or process of manufacture. A Cost Account thus shows what manufacturing processes, or contracts, prove remunerative.

(2) These completed costs serve another purpose. It is from these figures, as we have said, that reliable information and data are obtained for estimating future operations; and, further, they enable the management to ascertain whether the work is done at as low a figure as it can be done by competing manufacturers.

(3) Cost Accounts are invaluable to prevent wastage in time, or of materials. They provide a check on the workmen's time sheets, and on the stores issued for use in the factory. Where Cost Accounts are kept on a scientific principle, they should dovetail into the general scheme of book-keeping, or be otherwise checked by a system of double entry. This sometimes, however, in certain businesses, is not practicable.

Examples

The main objects of Cost Accounts, then, are to enable the management to ascertain as accurately as possible

the cost of producing, or manufacturing, an article, or of executing a contract. To arrive at this it is necessary to have a Cost Sheet in which is detailed the expenditure incurred in wages and material on the particular article produced.

A printer requires to know, for example, the actual cost in material, wages, overhead and establishment expenses of producing a book—the paper, composing, stereotyping, printing and binding. A shipbuilder must ascertain in accurate detail the same thing in making the *several parts* of the ship—the keel, the frame, the decks, the propelling shaft, etc. Every up-to-date mining company works out to a decimal point the cost per ton of getting coal to the pithead. So with the brewer. He keeps a watchful eye on the fluctuations in the cost per barrel of brewing his beer.

A Cost Account must do more than show merely the direct expenditure. It must also include its proportion of establishment charges, such as rent and taxes, lighting and heating, motive power, maintenance, and all such expenses as are not capable of being charged direct. The method of distributing establishment charges over specific articles of manufacture is sometimes a matter of considerable difficulty. The principle generally adopted is to fix the *percentage* of these establishment charges to be debited to specific work. This percentage is fixed according to data available from previous years.

The main thing is to make sure that every expense that has entered into the manufacture of that particular article is included, whether direct expenditure in wages, or material, or indirect expenses, which include the upkeep of machinery and buildings, office and management expenses, rates, taxes, and so on. In fact, a Cost Account serves practically the same purpose as a Profit and Loss Account. The Cost Account shows what has been expended on a specific piece of

220 COST AND MANUFACTURING DEPARTMENTAL ACCOUNTS

work, whereas the Profit and Loss Account shows the same thing in the aggregate.

All this means precise methods of

abstracting wages and allocating expenses. The following is given as a simple illustration of an engineer's Cost Account :

OUTLINE EXAMPLE OF AN ENGINEER'S COST ACCOUNT

| Date. | Particulars. | Wages Paid. | | | | | | (a). Total Wages. | (b). Direct Charges. | | | | (c). Stores Account. | | | | (d). Est. Charges 110% on Wages. | Total Cost. | | | | |
|---------------|---|--------------------|-------|------------------|-------|------------|-------|-------------------------|-------------------------|-------|-----------|-------|-------------------------|-------|--------------------|-------|---|----------------|----|-----|----|---|
| | | Pattern Makers. | | Fitters, etc. | | Machiners. | | | Material. | | Expenses. | | Material. | | General Stores. | | | | | | | |
| | | £ | s. d. | £ | s. d. | £ | s. d. | | £ | s. d. | £ | s. d. | £ | s. d. | £ | s. d. | | | | | | |
| 1927 Jan.1 | Wages Abstract for week . . . | 4 | 0 | 0 | 17 | 0 | 0 | 16 | 0 | 0 | 37 | 0 | 0 | | | | | 40 | 14 | 0 | | |
| " | Purchases Ana- lysis Journal . | | | | | | | | | | 117 | 0 | 0 | 13 | 0 | 0 | | | | | | |
| " | Coutts and Co. for castings . | | | | | | | | | | 50 | 0 | 0 | | 4 | 0 | 0 | | | | | |
| " | Stores Issued— Rivets . . . | | | | | | | | | | | | | | | | 6 | 6 | 0 | | | |
| | Stores Issued— Oil and Waste (And so on day by day.) | | | | | | | | | | | | | | | | | | | | | |
| | | 12 | 0 | 0 | 43 | 0 | 0 | 49 | 0 | 0 | 104 | 0 | 0 | 170 | 0 | 0 | 13 | 0 | 0 | 411 | 14 | 0 |

NOTE.—An abstract of the Cost Accounts extracted from the Cost Ledger will show —

(a) The wages paid for the period, agreeing with Abstract of Wages Book.

(b) The direct charges coming through the Invoice Book or Cash Book.

(c) Agrees with total stores issued as per the Stores Book.

(d) The total Est. Charges will approximate to the actual amount of charges incurred as shown by the Account in the General Ledger.

| | | | | | | | | | | | | | | | | | | | | |
|--------------------|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|-----|----|---|
| Analysis of Cost:— | | | | | | | | | | | | | | | | | | | | |
| Wages | | | | | | | | | | | | | | | | | | 104 | 0 | 0 |
| Material | | | | | | | | | | | | | | | | | | 170 | 0 | 0 |
| Expenses | | | | | | | | | | | | | | | | | | 13 | 0 | 0 |
| Stores | | | | | | | | | | | | | | | | | | 10 | 6 | 0 |
| Est. Charges | | | | | | | | | | | | | | | | | | 114 | 8 | 0 |
| Total Cost | | | | | | | | | | | | | | | | | | 411 | 14 | 0 |

(a) *Analysis of Wages.*—The wages of all workmen are analysed according to the work they have been engaged on, and the totals of the respective

columns, shown above, are charges against the corresponding job, or process of work. The Wages Abstract Book may be ruled as follows :—

ABSTRACT OF WAGES. WEEK ENDING JANUARY 7TH, 1927.

| No. | Name | Wages. | | Chargeable against | | | | | | | | | | | | | | | |
|-----|--------------------|--------|---|--------------------|----|---|------------|----|---|------------|----|---|------------|----|---|---|--|--|--|
| | | | | Job No. 1. | | | Job No. 2. | | | Job No. 3. | | | Job No. 4. | | | | | | |
| | | | | | | | | | | | | | | | | | | | |
| £ | s. | d. | £ | s. | d. | £ | s. | d. | £ | s. | d. | £ | s. | d. | | | | | |
| 1 | Pattern Dept. | | | | | | | | | | | | | | | | | | |
| 2 | Brodie | | | | | | | | | | | | | | | | | | |
| | Foster | | | | | | | | | | | | | | | | | | |
| | Etc., etc. | | | | | | | | | | | | | | | | | | |
| | Fitters. | | | | | | | | | | | | | | | | | | |
| 12 | Morris | | | | | | | | | | | | | | | | | | |
| 13 | Christey | | | | | | | | | | | | | | | | | | |
| | Etc., etc. | | | | | | | | | | | | | | | | | | |
| | Machiners. | | | | | | | | | | | | | | | | | | |
| 20 | Ford | | | | | | | | | | | | | | | | | | |
| 21 | Lord | | | | | | | | | | | | | | | | | | |
| | Etc., etc. | | | | | | | | | | | | | | | | | | |
| | Labourers. | | | | | | | | | | | | | | | | | | |
| 31 | Horne | | | | | | | | | | | | | | | | | | |
| 32 | Jackson | | | | | | | | | | | | | | | | | | |
| | Etc., etc. | | | | | | | | | | | | | | | | | | |
| | | 104 | 0 | 0 | 50 | 0 | 0 | 30 | 0 | 0 | 20 | 0 | 0 | 4 | 0 | 0 | | | |

The Stores Ledger Accounts will be as below :—

STORES LEDGER.

STORES ACCOUNT—IRON AND STEEL.

| Date. | Particulars. | Amount. | | | Date. | Particulars. | Engineering Dept. | | | Foundry Dept. | | | Motive Power. | | |
|---|--|---------|----|----|---|---|-------------------|----|----|---------------|----|----|---------------|----|----|
| | | £ | s. | d. | | | £ | s. | d. | £ | s. | d. | £ | s. | d. |
| 1927 Jan. Feb. Mch. to Dec. | To Purchases Journal . " " " " " " | | | | 1927 Jan. Feb. Mch. to Dec. | By Issues . . . " " . . . " " . . . | 600 | 0 | 0 | 310 | 0 | 0 | | | |
| | | | | | | | 6,000 | 10 | 6 | 1,600 | 0 | 0 | 255 | 10 | 0 |
| | | | | | | | | | | | | | 1,600 | 0 | 0 |
| | | | | | | | | | | | | | 6,000 | 10 | 6 |
| | | | | | | | | | | | | | 7,856 | 0 | 6 |
| | | | | | Dec. 31 | By Stores on hand c/d | | | | | | | 720 | 7 | 0 |
| | | | | | | | | | | | | | 8,576 | 7 | 6 |
| | | | | | | | | | | | | | 80 | 2 | 6 |
| | | | | | | | | | | | | | 8,606 | 10 | 0 |
| | | 8,606 | 10 | 0 | | | | | | | | | | | |
| 1928 Jan. 1 | To Stores on hand b/d . | 720 | 7 | 0 | | | | | | | | | | | |

STORES ACCOUNT—GENERAL MANUFACTURING MATERIALS.

| Date. | Particulars. | Amount. | | | Date. | Particulars. | Engineering Dept. | | | Foundry Dept. | | | Motive Power. | | |
|---|--|---------|----|----|---|---|-------------------|----|----|---------------|----|----|---------------|----|----|
| | | £ | s. | d. | | | £ | s. | d. | £ | s. | d. | £ | s. | d. |
| 1927 Jan. Feb. Mch. to Dec. | To Purchases Journal . " " " " " " | | | | 1927 Jan. Feb. Mch. to Dec. | By Issues . . . " " . . . " " . . . | 350 | 0 | 0 | 160 | 0 | 0 | 10 | 0 | 0 |
| | | | | | | | 3,550 | 5 | 0 | 950 | 10 | 0 | 110 | 0 | 0 |
| | | | | | | | | | | | | | 950 | 10 | 0 |
| | | | | | | | | | | | | | 3,600 | 5 | 0 |
| | | | | | | | | | | | | | 4,660 | 15 | 0 |
| | | | | | Dec. 31 | By Stores on hand c/d | | | | | | | 670 | 1 | 0 |
| | | | | | | | | | | | | | 5,230 | 16 | 0 |
| | | 5,230 | 16 | 0 | | | | | | | | | | | |
| 1928 Jan. 1 | To Stores on hand b/d . | 670 | 1 | 0 | | | | | | | | | | | |

STORES ACCOUNT—GENERAL STORES.

| Date. | Particulars. | Amount. | | | Date. | Particulars. | Engineering Dept. | | | Foundry Dept. | | | Motive Power. | | |
|---|--|---------|----|----|---|---|-------------------|----|----|---------------|----|----|---------------|----|----|
| | | £ | s. | d. | | | £ | s. | d. | £ | s. | d. | £ | s. | d. |
| 1927 Jan. Feb. Mch. to Dec. | To Purchases Journal . " " " " " " | | | | 1927 Jan. Feb. Mch. to Dec. | By Issues . . . " " . . . " " . . . | 26 | 0 | 0 | 10 | 5 | 0 | 30 | 10 | 0 |
| | | | | | | | 256 | 16 | 0 | 157 | 15 | 0 | 150 | 10 | 0 |
| | | | | | | | | | | | | | 157 | 15 | 0 |
| | | | | | | | | | | | | | 256 | 16 | 0 |
| | | | | | Dec. 31 | By Stores on hand c/d | | | | | | | 565 | 1 | 0 |
| | | | | | | | | | | | | | 170 | 0 | 0 |
| | | | | | | | | | | | | | 735 | 1 | 0 |
| | | 735 | 1 | 0 | | | | | | | | | | | |
| 1928 Jan. 1 | To Stores on hand b/d . | 170 | 0 | 0 | | | | | | | | | | | |

As these Stores Accounts are simply charged out to the various departments at cost price. The prices, at which materials are bought at different

PURCHASES ANALYSIS JOURNAL.[illegible]

(c) *Stores Account*.—All general materials purchased go into a general store for use as required, and are debited against a Stores Account (the amount being that shown by the Purchases Analysis Journal). The Stores

The Stores Issued Book would take the following form :—

STORES ISSUED BOOK.

[illegible]

(d) *Establishment Charges.*—In every business there are many general expenses which cannot be charged

direct to any one particular cost account, expenses which cannot be earmarked as belonging to any par-

ticular work, or process, such as rent and taxes, repairs, maintenance, insurance, depreciation, motive power and administrative expenses, including manager's and overseer's salaries. The practice with regard to all, or most of, such items is to arrive at an equitable proportion distributable over the various departments, or cost accounts.

It is not possible here to lay down any rule by which the exact proportion of establishment expenses to be charged against every job should be determined. It must be left to the practical men to say how such charges should be borne by the several jobs or contracts, often a difficult and intricate thing to determine. The following plan is generally followed.

The total establishment charges for the previous year may be taken as a basis. A certain percentage of these is taken, and added to the productive wages incurred, as shown in each Cost Account. This percentage is fixed according to the experience and data available in previous years. As the total actual establishment expenses are not ascertainable until the end of the year, the *estimate* worked upon may turn out (as it often will) to be too low or too high; in that case the percentage can be easily amended at the end of the year by a supplementary debit or credit.

Another plan sometimes used is to add a percentage of these overhead, or establishment expenses to the wages paid *and* the material used. Still another plan sometimes followed (as with printing machinery, for example) is to fix a rate (representing these general overhead charges) of so much per working hour for the use of certain machinery. Such a charge will include the expenses of motive power, depreciation, etc.

A Sound Principle

It is a sound principle to allocate the overhead expenses to the various departments, each bearing its proper share. When that has been done each

department will spread its allocation over the work done in the department.

Mr. Lawrence R. Dicksee says, "The basis of distribution for all rent charges is the productive or used square feet. The total used square feet divided into the total rent charges gives the charge per used square foot. This result multiplied by the used area of the department gives that department's proportion of the total rent expenses. By used floor space is meant that which is actually in use, exclusive of stairways, passages, elevator space, and idle or unused space."

On overhead charges, Mr. A. Cathles, C.A., writes in *The Accountant*:

"Having arrived at the amounts of the departmental overheads, one has yet to find the best method of allocating them over the work that will be done in the departments. In practice one will find as many as six different methods employed, most of which are sound under certain circumstances, none of which is efficient under all circumstances, and one of which is wrong under any circumstances. The six methods are:—

1. On the basis of the productive wages.
2. On the basis of the time of productive workers (man-hour rate).
3. On the basis of the running time of machines (machine-hour rate).
4. On a machine-hour rate for purely machine expenses and on a man-hour rate for the balance.
5. On the basis of output.
6. On the basis of prime cost.

The productive wages method would be sound where all work is done by hand and where there is a flat rate of wages for all productive workers.

The man-hour rate method would answer where no machines were employed, all work being hand done, even although the productive workers' wage rates varied.

The machine-hour rate method would be applicable to a department where the machines did not

vary in depreciation, power consumption or maintenance, and where all work was machine done.

Where machines vary in their cost of depreciation, power consumption, maintenance, or rent, or where hand work and machine work are done in the same department, the method of allocation by means of a mixture of the machine-hour and man-hour rates is the most sound.

The output method (so much per ton or other unit) may be reasonably employed in such a case as where the class of output is constant, where it is impracticable to record accurately the time that workers spend upon jobs because they are attending to more than one job at a time, and where the time the jobs are in progress depends upon a chemical or other process and not upon the efforts of the men.

The prime cost method can never be sound because there is no item of the overhead expenses which can be said to vary with the value of the materials used. The wages method is rarely, if ever, sound, and allocation upon the basis of the value of the materials would be quite wrong, and the combination of two wrongs never yet made a right. . . .

But whatever method may be adopted, it will usually be found that to obtain prompt cost results the basis must be an estimated one, either a percentage on direct wages, man-hour rate, machine-hour rate or as the case may be. The rates have to be fixed in advance and therefore an estimated expenditure must be adopted, and also an estimated divisor for wages, man hours, machine hours, or output."

From what we have said, it will be apparent how valuable Cost Accounts are in providing reliable and exact information, not only to show what processes, and what products or contracts, prove remunerative, but in providing the means of ascertaining whether the work is done at as low a rate as it can be elsewhere. Like

every account, costs have to be watched to see that no wastage has crept in, that no slackening in work takes place, that no stores more than was necessary have been used.

Two Methods

It may be said here that, in certain manufacturing businesses, it is usual to frame Cost Accounts in such a way that they dovetail into the general scheme of the financial books, or what are called books of account. In other words, the Cost Accounts are so arranged that they can be incorporated in the Departmental Manufacturing Accounts, of which they are merely subdivisions. All this involves precise methods of keeping records, of abstracting wages, expenses and stores issued.

What each Cost Account shows in detail the final Departmental Account shows for *all*. There is, therefore, a sound check on the accuracy of the separate Cost Accounts. They are now capable of double-entry proof as regards arithmetical and book-keeping accuracy. The cost ledgers are balanced, and are capable of agreement with the financial or commercial books of the business.

Wherever the work done is that of a contract, or specific work done in self-contained departments, as in many engineering works, for example, the costing system should form an integral part of the financial book-keeping system. The books and accounts required will be such as we have exemplified on previous pages. Where this is impracticable or involves too much detail and trouble, other systems outside the financial books of account are adopted, and to these we shall now turn our attention.

Cost Sheets

A Cost Sheet must not be confused with a Cost Account. The latter, as we have said, is usually incorporated with, and forms part of, the book-keeping system. A Cost Sheet, on the

other hand, is simply the analysed record of what the actual cost has been, but it is usually not capable of being verified by the double-entry system of book-keeping. Cost Sheets, therefore, are merely memoranda. Neither must a cost sheet be confused with an estimate. An estimate is merely a forecast of what a contract or some piece of work will cost, not a record of the actual cost.

As these cost sheets are not incorporated in the financial book-keeping

system, great accuracy must be observed, otherwise they will simply mislead. Wherever it is possible to instal a double-entry check, it should be done.

The cost sheet of a spinning and weaving factory may merely serve to show the cost per pound of spinning yarn, and weaving cloth, just as the cost sheet of a coal-mining company merely shows the output cost per ton of raising coal. Some specimens of a few such cost sheets follow.

COAL COST SHEET.

CROWN COAL COMPANY, LIMITED.

COAL OUTPUT AND COST RETURN.

Week Ending.....

No. 1 Mine.

Output, 1000 tons, 0 cwt.

| Details of Expenditure. | Amount. | | | Cost per Ton. | | Average Cost per Ton. | | | |
|---|---------|----|----|---------------|----------|-----------------------|----------|------------|----------|
| | | | | | | This year. | | Last year. | |
| | £ | s. | d. | s. | d., dec. | s. | d., dec. | s. | d., dec. |
| WAGES—Miners (Output) . Fathomago | 400 | 0 | 0 | 8 | 0 | 8 | 10-5 | | |
| Roadsmen | 90 | 0 | 0 | 1 | 9-6 | 1 | 9 | | |
| Oversmen | | | | | | | | | |
| Bottomers | | | | | | | | | |
| Other Underground Wages | | | | | | | | | |
| | 490 | 0 | 0 | 9 | 9-6 | 10 | 7-5 | | |
| WAGES—Pitheadmen, etc., above ground Tradesmen | 60 | 0 | 0 | 1 | 2-4 | 1 | 0-1 | | |
| Enginemen and Furnace- men | 25 | 0 | 0 | | 6 | 1 | 2 | | |
| Total Wages | 575 | 0 | 0 | 11 | 6 | 12 | 9-6 | | |
| Timber used | 35 | 0 | 0 | | 8-4 | | 9-4 | | |
| Rails and Ropes | | | | | | | | | |
| Sundry Stores | | | | | | | | | |
| Coal for Boilers at per ton | 40 | 0 | 0 | | 9-6 | | 8-9 | | |
| Total Materials | 75 | 0 | 0 | 1 | 6 | 1 | 6-3 | | |
| Salaries | 46 | 0 | 0 | | 11 | | 11-4 | | |
| Propn. of Fixed and Genl. Charges | 100 | 0 | 0 | 2 | 0 | 1 | 4-6 | | |
| Royalty | 16 | 13 | 4 | | 4 | | 4-0 | | |
| Total Charges | 162 | 13 | 4 | 3 | 3 | 2 | 8-0 | | |
| Total Cost | 812 | 13 | 4 | 16 | 3 | 16 | 11-9 | | |

The figures are fictitious.

Output Cost Sheets vary in detail, and are simple or intricate, according to the particular kind of business and to the nature of the product. The initial difficulty in many cases is to devise a system that is practicable and reliable in the results shown. Probably no costing system is perfect, but it would be a poor system that could not be made reliable and efficient for all practical purposes.

The Output Cost Sheet

In many factories a Cost Sheet is prepared for a specific product, or for a particular contract, such as in the shipbuilding, motor-car, engineering and other industries. In others the nature of the product does not permit of this, as, for example, in the cotton-spinning industry, paper-making, boot-making, paint and varnish works, chemical manufacturing, and so on with all manufactures that are produced constantly

and in bulk. In such cases there is a system of Process Costs.

For example, a chemical company arrives at its manufacturing process costs on a quantitative basis; that is to say, the cost of producing nitric acid is worked out to show the average cost *per ton* of output. The total cost of the raw material used, plus factory wages, plus all other expenses, including establishment charges, make up the final cost. This final figure divided by the total output of nitric acid gives the average cost per ton for the week. Over a period of several weeks a fairly accurate idea of the cost is thus obtained.

In a similar way the brewer arrives at the average cost *per barrel* of brewing; in the case of the chemical company, the cost unit is the ton; in the case of the brewer, the cost unit is the barrel of thirty-six gallons (or whatever it may be). It might take the following form:

BREWING COSTS FOR MONTH.

| | | | | Output, Barrels. | Cost per Barrel. | | |
|---|--------|----|----|---------------------|---------------------|----|----|
| | £ | s. | d. | | £ | s. | d. |
| Malt, Grain, etc. | 2,000 | 0 | 0 | 4,000 | £ | 10 | 0 |
| Hops, Sugar, etc., Chemicals | 1,100 | 0 | 0 | | | 5 | 6 |
| Beer Duty | 13,000 | 0 | 0 | | 3 | 5 | 0 |
| | 16,100 | 0 | 0 | 4,000 | 4 | 0 | 6 |
| Wages | 500 | 0 | 0 | | | 2 | 6 |
| Cooperage, Fuel, Water, etc. | 700 | 0 | 0 | | | 3 | 6 |
| Other Charges, including Depreciation . | 900 | 0 | 0 | | | 4 | 6 |
| | 18,200 | 0 | 0 | 4,000 | 4 | 11 | 0 |
| Establishment Charges | 1,000 | 0 | 0 | | | 5 | 0 |
| | 19,200 | 0 | 0 | 4,000 | 4 | 16 | 0 |

From the above figures the value of bye-products would be deducted. The cost per gallon may be obtained by including a record of the gallons brewed.

Similar systems are employed in numerous other industries. We shall

take another example, this time a printer producing, say, a popular magazine. The Cost Sheet in this instance would be as follows. As usual we would start off with a Cost Sheet for the different processes."

Printing Costs Sheet.

Order No. K 286.

Date of Order

Description Abbey Publishing Co.

Date of Dispatch

Name Magazine, November No., 1928.

| | Hours. | At. | Labour. | | | Material. | | | Total. | | |
|---|--------|------|---------|----|----|-----------|----|----|--------|----|----|
| | | | £ | s. | d. | £ | s. | d. | £ | s. | d. |
| COMPOSING ROOM : | | | | | | | | | | | |
| Hand—Stab. Daytime | 235 | 2/5 | 28 | 7 | 11 | | | | | | |
| Do. do. Overtime | 17½ | 3/7 | 3 | 2 | 8 | | | | | | |
| Do. Piece Apps. | 30 | 1/7 | 2 | 7 | 6 | | | | | | |
| Do.—Piece (No. of ens) | | | | | | | | | | | |
| Do. Stab. Daytime | | | | | | | | | | | |
| Do. do. Overtime | | | | | | | | | | | |
| Mono.—Stab. Daytime | | | 6 | 19 | 6 | | | | | | |
| Do. do. Overtime | | | | | | | | | | | |
| Make-up and Imposition . . . Daytime | | | | | | | | | | | |
| do. do. Overtime | | | | | | | | | | | |
| Reading Daytime | 69½ | 2/10 | 9 | 17 | 7 | | | | | | |
| Do. Overtime | 11½ | 4/3 | 2 | 7 | 10 | | | | 53 | 3 | 0 |
| FOUNDRY : | | | | | | | | | | | |
| Stereo-making Daytime | 146 | 3/10 | 27 | 19 | 8 | | | | | | |
| Do. Overtime | | | | | | | | | | | |
| Handwork Daytime | | | | | | | | | | | |
| Do. Overtime | | | | | | | | | 27 | 19 | 8 |
| MACHINE ROOM : | | | | | | | | | | | |
| Machine (151) Daytime | 55 | 10/- | 27 | 10 | 0 | | | | | | |
| Do. Overtime | 34½ | 15/- | 25 | 17 | 6 | | | | | | |
| Machine (134) Daytime | 67½ | 13/- | 43 | 17 | 6 | | | | | | |
| Do. Overtime | 14 | 21/7 | 15 | 2 | 2 | | | | | | |
| Machine (88) Daytime | 590 | 4/2 | 122 | 18 | 4 | | | | | | |
| Do. Overtime | 55 | 6/9 | 18 | 11 | 3 | | | | | | |
| Machine (Overlays and Assist) . Daytime | 40 | 2/5 | 4 | 16 | 8 | | | | | | |
| Do. Overtime | 14 | 4/- | 2 | 16 | 0 | | | | 261 | 9 | 5 |
| WAREHOUSE : | | | | | | | | | | | |
| Piece—Women Piece rate . . . | | | 182 | 12 | 7 | | | | | | |
| Stab. Daytime | 994½ | 2/- | 99 | 9 | 0 | | | | | | |
| Do. Overtime | 206½ | 3/1 | 31 | 16 | 8 | | | | | | |
| Porters Daytime | 173½ | 1/9 | 15 | 4 | 1 | | | | 329 | 2 | 4 |
| MATERIAL : | | | | | | | | | | | |
| Composing Room | | | | | | 2 | 15 | 8 | 671 | 14 | 5 |
| Machine Room | | | | | | | | | | | |
| Warehouse | | | | | | 13 | 14 | 4 | | | |
| Ink | | | | | | 47 | 5 | 3 | | | |
| *Electros, etc. | | | | | | | | | | | |
| *Paper | | | | | | | | | 63 | 15 | 3 |
| TOTAL | | | | | | | | | | | |
| | | | 671 | 14 | 5 | | | | 735 | 9 | 8 |
| Cost of Labour | | | 671 | 14 | 5 | | | | | | |
| Cost of Material | | | 63 | 15 | 3 | | | | | | |
| % for Overhead Charges | | | | | | | | | | | |
| TOTAL COST | | | 735 | 9 | 8 | | | | | | |
| Paper entered in Stock Book by | | | | | | | | | | | |

Selling Price £ s. d.

* It is customary for the Electros to belong to the printer, so there is no charge in the above amount for foundry metal used. The Paper in this case has been supplied by the customer.

The percentage charge for overhead costs is not included; the above cost sheet shows the prime cost; some firms treat overhead charges in one way and others in another way, as explained in the foregoing pages.

Paper entered
in Stock Book
by

| | | Overseer. | | | Cost Clerk. | | |
|------------------------------|---|-----------|----------|---------|-------------|----|----|
| | | £ | s. | d. | £ | s. | d. |
| Composing Department. | (The details of hours and rates would be entered on the back of this form.) (Overheads) 27½% | 52 14 | 17 10 | 0 8 | 67 | 7 | 8 |
| Foundry Department. | (Details on other side.) 40% | 21 8 | 15 14 | 5 2 | 30 | 9 | 7 |
| Machine Department. | (Details on other side.) 75% | 42 31 | 11 18 | 6 7 | 74 | 10 | 1 |
| Warehouse. | Folding (hand) „ (machine) Separating Insetting Gathering Stitching Wrapping Cutting Baling | 36 | 12 | 10 | | | |
| | 20% | 36 7 | 12 6 | 10 7 | 43 | 19 | 5 |
| MATERIALS. | | | | | | | |
| Ink . . . | Text (m) per lb. Cover (m) „ | 8 | 10 | 0 | 216 | 6 | 9 |
| Wrappers . . . | | 4 | 4 | 9 | | | |
| Rope . . . | | 1 | 8 | 3 | | | |
| Wire . . . | | 6 | 2 | 6 | | | |
| Glue . . . | | | | | | | |
| Cartage . . . | | | | | | | |
| Extras . . . | | | | | | | |
| | 5% | 20 1 | 5 0 | 6 3 | 21 | 5 | 9 |
| | | | | | 237 | 12 | 6 |
| | | | | | | | |

Work Dockets

ork Dockets
The following illustrate some of the daily dockets from which the cost sheet on the preceding page is made up.

Daily Work Docket.

[illegible]

Daily Work Docket.

[illegible]

Warehouse Daily Work Docket.

| NAME | | No. | | | | DATE | | | | |
|-----------|-------|----------|------|--------|------|----------|------|-----------------|------|-----------------|
| Order No. | Work. | Cutting. | | Bench. | | Folding. | | Non-productive. | | For Office Use. |
| | | Day. | O.T. | Day. | O.T. | Day. | O.T. | Day. | O.T. | |
| . | | | | | | | | | | |
| . | | | | | | | | | | |

The foregoing examples of Cost Sheets have been given in bare outline for the sake of simplicity; all can easily be adapted for more details.

The practice, where workmen may be engaged on various jobs, is for them to be provided with daily dockets on which they mark the time engaged on particular jobs. These dockets, therefore, show the chargeable time for each job. There may be often non-chargeable hours which have to be dealt with in the costing office according to circumstances.

The Machine-hour Rate

We have said that where there is expensive machinery in a factory, a plan followed is to fix a rate of so much per working hour to cover the work turned out by machines. Such hourly rates would include every expense involved in running the machines, but not materials. As another writer puts it:

"The machine-hour rate is calculated by dividing the estimated machine expenses by the estimated

number of hours that the machine will run during the year. Machine expenses are—the rent and rates of the space occupied by and necessary for the running of the machine; repairs and renewals of machine; power consumed by the machine; and depreciation of the machine value. Where the machines in a shop vary in value, power, consumption, etc., it will be desirable to fix a rate for each machine."

We take a simple example of a small printer who has the eight presses mentioned. The cost value of each machine is divided into units of £50. Thus, a machine of the value of £50 would equal 1 unit, and a machine of £500 equal 10 units. The total departmental expenses are estimated, as explained on a previous page, and the weekly average is taken. This total divided by the total number of units gives the hourly rate per unit, and thus the hourly rate of any one machine is arrived at by multiplying this rate by the number of units allotted to the machine.

PRINTING MACHINE UNITS

| 1. Machine. | 2. Cost. | 3. Units of £50. | 4. Av. Hours in use per Week. | 5. Total Hour Units per Week. Col. 3 × Col. 4. | 6. Machine Hourly Unit Cost. Hour Unit × Col. 3. | 7. Total Wages. | 8. Machine Hourly Rate. |
|-----------------------------|-----------------|-------------------------------|---|--|--|---------------------------|--------------------------------------|
| | £ | | | | s. d. | £ s. d. | s. d. |
| 1 Quad Demy (2 Rev.) . | 550 | 11 | 38 | 418 | 4 9½ | 6 16 0 | 8 4½ |
| 2 Quad Crown (2 Rev.) . | 440 | 9 | 38 | 342 | 3 11½ | 6 13 0 | 7 5½ |
| 3 Double Demy Wharfe. . | 200 | 4 | 33 | 132 | 1 9 | 5 8 6 | 5 0½ |
| 4 Demy . . | 160 | 3 | 38 | 114 | 1 3½ | 4 14 6 | 3 9½ |
| 5 " . . | 145 | 3 | 38 | 114 | 1 3½ | 4 14 6 | 3 9½ |
| 6 Falcon, Demy Folio . . | 150 | 3 | 35 | 105 | 1 3½ | 1 5 0 | 2 0½ |
| 7 Crown Wharfe . | 140 | 3 | 38 | 114 | 1 3½ | 4 11 6 | 3 8½ |
| 8 Arab . . | 45 | 1 | 28 | 28 | 5½ | 1 2 0 | 1 2½ |
| | 1830 | | 286 | 1367 | | | |

The above form is adapted from "The Federation Printer's Cost-Finding System."

Example :

Total Cost of Departmental Expenses £15 10s. 0d. per week.

„ „ Overhead Charges £15 0s. 6d. „

Divided by 1367 machine units)£30 10s. 6d. (= say, 5½d. per hour unit.

The rate for No. 1 machine (11 units) is, therefore, 5½d. × 11 = 4/9½ per hour.

If it is desired, as is often the case, to get the machine hourly rate, *including* workmen's wages, a separate column (No. 7) will show

the *wages*, which are added to the departmental and overhead charges, and the calculation is made thus for, say, No. 1 machine.

No. 1 Machine—5½d. per unit × 11 units = 4/9½
Wages for week £6 16s. 0d. ÷ 38 hours = per hour = 3/7

No. 1 Machine hourly rate = 8/4½ (Col. 8).

There is always a certain loss for standing time on a machine; this is allowed for in the average hours in use (Col. 4).

There is also the Productive-Hour-Method described by another writer thus: "In a plant where practically all the labour is hand labour the man-hour is the basis, and the total hours divided into the total overhead expense gives a rate per hour, which rate, multiplied by the hours spent on a job, gives the overhead expense chargeable to that job. In a plant where machines are the producing unit the distribution must be on the basis of the machine-hour, and the same method is pursued as in the case of the man-hour.

"An estimate of overhead expenses should be made at the beginning of the year based on previous years' experience with such changes as the executive's knowledge of business conditions leads them to make. This figure, divided by the expected output in hours of the machines, gives a normal overhead expense rate to be applied to all work in that department. This rate remains constant until the end of the fiscal year."

Example of Spinning Costs

The cotton spinning and weaving industry may be instanced as a trade in which a scientific system of costing is difficult to devise. And yet it is one where that is very desirable, for the industry is greatly specialised and subdivided. We shall deal with this industry therefore with more detail.

Some firms are spinners only, or spinners and doublers, making yarn to be sold through yarn agents to the weavers, or else sewing cottons for a variety of uses; other firms are weavers only, some making plain sheetings, calicoes and other staples; others manufacturing a vast and ever-varying range of specialities and fancy goods. Yet again, there are many large firms who are spinners and weavers both, manufacturing the yarn in their own spinning mills to keep their weaving mills supplied. A matter of the greatest importance to this last type of firm is to maintain the right balance of production between their two departments.

The raw material of the industry is imported cotton. Immense importance attaches to the skilful buying of the raw material, the mill-

owners purchasing for the most part, through their brokers in Liverpool or Manchester, from the importing merchants. A large proportion of the raw cotton is bought "on call" for future delivery and payment; the spinner who has a contract to supply yarn to the weaver at certain dates covering his production and his sales by buying cotton to be delivered later, so many bales per month, until his contract is completed. If he buys for immediate delivery he is said to buy "spot" cotton instead of "future." A third method of buying American cotton is from the shipper, whose terms are c.i.f., that is, the cost of the cotton with the insurance and freight costs added.

Method of Working Described

Some of the large spinning and weaving firms keep their mills and their administrative offices separate; the latter may be in Manchester, the former in one or more of the smaller towns in the same district. Generally there is a Managing Director, controlling every department on the production side, including the purchase of the raw material, the dyes for yarn dyeing, as well as machinery and fuel. Immediately responsible to this Director of Production are the managers of the individual mills, and he, in association with their technical assistance, controls the planning of the output.

All production is undertaken on instructions from the head office of the firm, where orders are received through the sales department from merchants, warehousemen and shippers, and from the sales branches and agents of the firm. The Director of Production is also responsible for the laboratory and research department, including the scientific testing of materials and dyes which is necessary in every mill, and, in the case of some large firms, research work, undertaken for their own special purposes on the lines of that carried

out for the whole industry at the Shirley Institute which has been established at Didsbury in Cheshire.

The immense complication both of wage lists and of costing systems in the industry is due to the varying speeds of production for every count of yarn and for almost every class of woven fabric. The fineness of cotton yarn, as most people know, is denoted by its count, which ranges from a No. 1 yarn up to a No. 120 or even higher. In a No. 1 cotton yarn there are 840 yards to the lb. weight; in a No. 10 there are 8,400; in 60's there are 50,400; in 100's there are 84,000. It is evident, therefore, that the speed of production, measured by pounds weight of output, varies with every count, and becomes slower with every advance to a higher degree of fineness.

Elaborate lists of wage-rates are drawn up, calculated on the possible output of the machinery which each operator has to mind for every variation in the count; and this applies to all the different processes through which the cotton passes, but it is usual in the preparatory processes to pay day rates instead of piece rates.

The importance of accurate and scientific costing has of late years been more generally realised than heretofore by cotton manufacturers, but the conditions are so different that hardly any two mills, or groups of mills, arrive at their conclusions by exactly the same method. Each has evolved, or is evolving, a system of its own, and not many are satisfied that they have reached a wholly satisfactory procedure. Generally speaking, the aim of spinners is to reduce everything to a spindle basis; to find out what one spindle would produce on every different count, and then to apportion the various overhead and other charges.

The following is the basis of the system of costing as used for a 90,000 spindle mill, in regard to three counts of yarn, 60's, 70's, and 80's.

I. Standard Production.

| | | | | | |
|-------------|---------|----------------------|---|-----------|----------|
| 60's Thread | 390 lb. | per spindle per week | = | 19.5 lbs. | per year |
| 70's | 309 lb. | " " " | = | 15.4 lbs. | " |
| 80's | 262 lb. | " " " | = | 13.1 lbs. | " |

II. Standard Annual Cost of the Mill.

| | |
|-----------------|---------|
| Annual Charges | £14,928 |
| Working Charges | 10,220 |
| Mule Wages | 7,382 |
| Preparing Wages | 6,700 |

III. The annual charges (£14,928) are made up as follows :—

| | £ | | £ | Per spindle. |
|-------------------------|-----------------------|--|---------|----------------------------|
| | | | d. | |
| Land | 8,000 at 5 % interest | | 400 | = 1.07 |
| Buildings and Machinery | 130,000 „ 5 % | | 6,500 | = 17.33 |
| Working Capital | 59,000 „ 5 % | | 2,950 | = 7.86 |
| Depreciation : | | | | |
| Buildings | 52,360 „ 2½ % | | 1,309 | = 3.49 |
| Power Plant | 11,340 „ 4 % | | 454 | = 1.21 |
| Machinery | 66,300 „ 5 % | | 3,315 | = 8.84 |
| | | | £14,928 | = 39.80 pence per spindle. |

Among the above annual charges is included interest on £59,000 working capital. This working capital is the amount required to finance three months' production of yarn, of the three counts in the following ratio : 25% of 60's; 15% of 70's; and 60% of 80's. It is made up of—

| | |
|---|---------|
| Cost of cotton required by 90,000 spindles for 13 weeks | £24,622 |
| 1 month's cotton in process | 8,200 |
| 3 months' wages and expenses | 6,000 |
| 1 month's yarn in stock | 10,000 |
| 1 month's outstanding accounts | 10,000 |
| | £58,822 |

Or, in round figures, £59,000.

IV. Referring back to the Standard Annual Cost of the mill, (II), we find Working Charges stated as £10,220. This figure comprises—

| | £ | Cost per spindle. |
|---------------------------------|---------|-------------------|
| | d. | |
| Foreman's Wages | 750 | = 2.00 |
| Management and General Charges | 2,300 | = 6.13 |
| Power, 1,450 h.p. at 60s. | 4,350 | = 11.60 |
| Repairs and Upkeep of Machinery | 500 | = 1.33 |
| Property, Upkeep, and Taxes | 1,000 | = 2.66 |
| Oils and Stores | 720 | = 1.92 |
| Roller Covering | 600 | = 1.60 |
| | £10,220 | = 27.24 pence |

By taking the annual charges, the working charges, and the wages payable during the year if the mill were working full time on either of those three counts, and by dividing these totals by 90,000, the cost per spindle

is arrived at for each count, exclusive of the cost of the raw cotton.

We have now the Annual Charges and the Working Charges, reduced respectively to 39·80 pence (III), and 27·24 pence per spindle (IV). By

adding to these figures the wages similarly reduced we get the cost of the mill exclusive of the raw material.

V. The Wages are stated as follows :—

| | | £ | Per spindle. d. |
|------------------------------------|--------|--------|--------------------|
| If the mill were running wholly on | 60's = | 14,782 | = 39·41 |
| " " " " " | 70's = | 14,300 | = 38·13 |
| " " " " " | 80's = | 13,509 | = 36·02 |

VI. Taking these counts separately, the cost per spindle per annum works out thus :—

Proportion of—

| | Annual Charges. d. | | Working Charges. d. | | Wages. d. | Total cost exclusive of cotton, per spindle. d. |
|----------|-----------------------|---|------------------------|---|--------------|--|
| 60's . . | 39·80 | + | 27·24 | + | 39·41 | = 106·45 |
| 70's . . | 39·80 | + | 27·24 | + | 38·13 | = 105·17 |
| 80's . . | 39·80 | + | 27·24 | + | 36·02 | = 103·06 |

These totals, divided by the standard production figures, give the production cost per lb. (exclusive of the cotton used) of finished yarn for each of the three counts. The cost of the cotton is worked out and added.

In arriving at the cost of the cotton used, allowance is made for the fact that, owing to the waste extracted in the preparatory processes, it takes let us say 1·4 lbs. of raw cotton to produce 1 lb. of 60's or 70's yarn, and 1·44 lbs. to produce 1 lb. of 80's, allowance being also made for the value of this waste.

It should be said that the figures used above are illustrations and do not represent present-day costs.

The subject of waste is one of great importance in the spinning mill. After the bales of raw cotton are broken open, the material passes through various cleaning and scutching machines to get rid of all impurities, and then through a succession of attenuating processes, slubbing, carding, combing, and roving, by which the slivers are drawn out to the fineness essential for spinning different counts of yarn.

The quantity of waste extracted in the preparing sheds depends on the quality of yarn, and this waste is divided into about 25 different classes, varying between the best waste, which commands a good price, and the mere sweepings. A mill which is producing more than one class of yarn can often use in the lower grades of yarn 20 or 30 per cent. of its own waste; the rest it sells by contract to a regular waste dealer.

One of the largest spinning firms in Lancashire recently made a careful investigation into the constituent expenses of spun yarn a few years ago and found that a 5 per cent. decrease in waste made was more profitable than a 5 per cent. decrease either in wages or in general expenses. It was also found that a 5 per cent. increase in production per spindle was financially equivalent to a 10 per cent. reduction in wages.

Weekly Returns

In all large industrial concerns it is essential that there should be some system by which those who are directing the business can be kept

Running Costs

Railway Companies, Electric Power Companies, Motor 'Bus Companies, etc. employ a rather different type of costing to those we have dealt with, but their running or working costs are based on the principles we have explained. The aim of a Railway Company is to get the running cost per train mile and ton carried.

A Final Word

It is obvious that any costing system loses a great part of its value if the costs are not produced quickly. The greater part of their usefulness lies in the prompt information supplied. Only thus can high costs, extravagance, waste, bad workmanship, and errors be checked and remedied betimes.

Finally, we would refer again to the necessity of costing systems in

every manufacturing business to-day that would be efficient. Mr. Lawrence R. Dicksee, the eminent accountant, says :—

“Like all other accounts, Cost Accounts are required for the purpose of arriving at records of actual facts; to enable those responsible for management to apportion praise and blame, and to enable them to build up in the future a business policy founded upon experience, rather than upon surmise or guesswork. They are particularly valuable when margins of profit are low, and when, therefore, the most rigid economy must perforce be practised; when there is the most urgent need to compare the relative costs of alternative methods; and also, from time to time, when the question arises as to whether it is, or is not, worth while to increase the output.”



Courtesy of "The Times"

MASS PRODUCTION OF MOTOR CARS. THE CHASSIS.

Assembling shop in the works of Morris Motors, Ltd. A very similar process in the Austin works is described on p. 243.

CHAPTER XIII

BUSINESS METHODS IN LARGE-SCALE PRODUCTION

BY

SIR HERBERT AUSTIN

Managing Director of The Austin Motor Co., Ltd.

The following article by Sir Herbert Austin will be read with much interest. The methods explained were instituted a few years ago and resulted in one of the most remarkable recoveries to prosperity ever recorded in the annals of industrial enterprise. In illustration of this it may be said that, ranging over three years, the Company increased its turnover by 209 per cent.; the average increase in workers' output efficiency was 73 per cent.; increase in individual earnings, 108 per cent.; increase in profits, 93 per cent.; and decrease in cost to purchasers, due to lowered list prices and added equipment, 62 per cent.—EDITOR.

IN what I have to say I shall confine myself to the Company with which my own name is associated. Like every other business, the final decisions on questions of policies and programmes lies with the Directorate.

One of the axioms of modern business, the importance of which the leading motor-car manufacturers have been quick to realise, is that production on a large scale of any article can only be planned efficiently when it is based on a careful estimate of probable sales. Mass production has no value apart from mass consumption; calculations must always begin at the sales end. Successful motor manufacturers obtain in advance very close estimates of the demand for the ensuing season, both as to numbers and to types of car, and on these estimates they base their programme of production for the year.

Sales Organisation

The sales organisation of a typical British motor factory is made up of

two types of agents: main agents, to each of whom is allotted an exclusive area, with a limited number also in the Dominions and in foreign countries; and a much larger number of sub-agents, appointed sometimes by the manufacturers, sometimes by the main agents with the manufacturers' approval. The main agents are practically wholesalers; they contract with the manufacturers to dispose of so many hundred or thousand cars of different types during the ensuing season, within their specified areas, either through the sub-agents to each of whom they allot a section of their territory, or directly to customers in that part of the territory which is reserved to themselves.

These big local distributors are able to gauge very closely, through their own selling experiences and that of their sub-agents, the prospects for the near future in their districts; and they supply to the manufacturer early advance estimates of probable sales.

Largely on the basis of these

estimates, carefully checked and considered by the internal sales department of the factory, a definite programme of production is drawn up for the ensuing year, erring if at all on the low side rather than the high, because it is always easier and more economical to increase production than to retard it.

Planning

Starting thus with the advance sales estimate, a whole year's work in the factory is planned, down to the smallest detail, six months before it is begun, or eighteen months before it is to be completed; and in order to reduce waste to a minimum, both in regard to employees and to plant, the production is spread evenly over the whole year. As motor-car selling is to some extent seasonal, this involves setting aside a large space for storing the surplus of completed cars or components at certain seasons, but the avoidance of any serious fluctuations in personnel, expenditure and output far more than compensate for this minor inconvenience.

The busy sales season lasts from about Christmas to August, and, but for this policy of steady production, there would have to be a great speeding up of factory work in preparation for the new season's opening. By planning well in advance the staff is kept busy all the time, and there are no special periods of hustle and of slackness, the total production per week is practically constant, such slight variations as occur being due to an occasional delay in some delivery of materials or other outside purchases, and every worker knows that he can count upon a steady income.

Another benefit from the maintenance of this "straight line of production" is the ability to check progress and conditions at regular short intervals, instead of only on the total output for the year. Some firms divide their year by the lunar months in preference to the calendar, so getting

thirteen equal divisions of four weeks each on which to make reports.

When once the programme is laid down and the number of cars determined that are to be made of each of the firm's standard types during the year, it becomes the business of the production manager to plan the details, and to allocate to all departments their various obligations.

One of his own first obligations is to draw, on a series of charts, a curve showing the exact date when each completed car should be ready throughout the production year, with corresponding curves at calculated intervals for the completion of each stage of work upon it. A chart of this kind is here shown.

Taking car number 9,990 as an example; its date for final completion is June 10th, and in order that this may be achieved the material must be ready for the stamp shop on March 30th; the stamp work finished on April 30th; the foundry work on May 18th, and the machining on May 28th.

When it is remembered that a single typical car chassis of 12 H.P. is made up of more than 1,100 items, consisting of about 3,500 pieces, and that there are firms turning out several hundred cars per week, six months in advance will not seem any too soon to begin the detailed planning and preparing.

After determining the rate of progress for the work, the production manager makes out for the purchasing department a complete list of all the materials required, with the quantities of each, and the dates when they must be delivered. These include rough stampings and castings, steel stamping material, bar material, tubing, section aluminium, brass and steel sheet metal, for all of which rigid specifications are laid down. Outside purchases also include all parts of the finished motor-car which are not made in the car factory, such as magnetos and accumulators, lighting dynamos, tyres, clocks and speedometers.

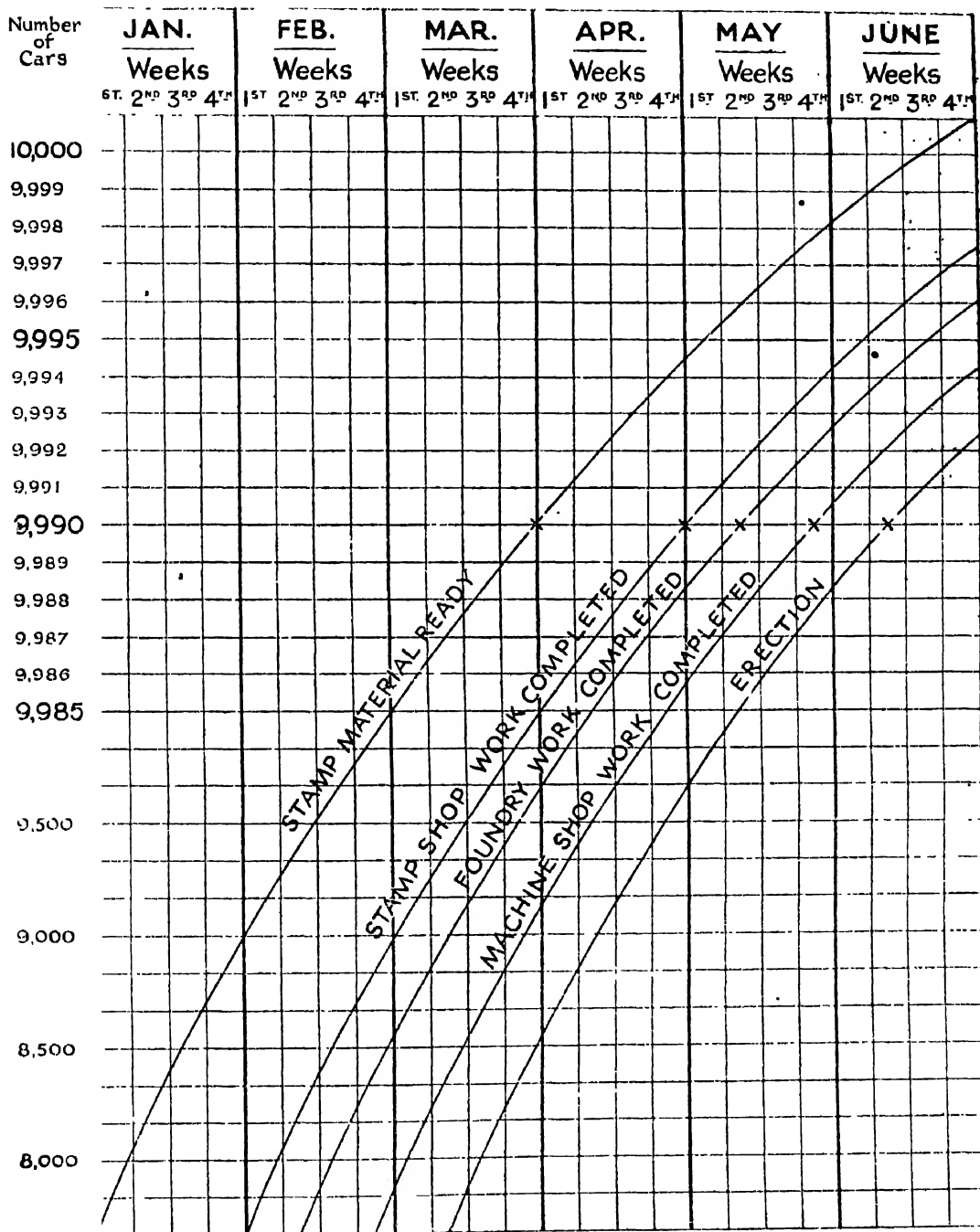


CHART USED BY THE AUSTIN MOTOR CO. TO SHOW THE EXACT DATE ON WHICH EACH CAR SHOULD BE READY FOR DELIVERY

WORKS LAY-OUT.

17. C.

| | DATE | COMPONENT | MATERIAL | PART NO. | | |
|---|------|--------------------|----------------------------------|--------------------------|---------|------------|
| NO VARIATION may be made from this lay-out before notification on regulation form to Efficiency Dept. | Od. | Description of Op. | Jigs, Tools and Gauges required. | Jig, Tool and Gauge Nos. | Machine | Hrs. Mins. |
| | | | | | | |
| | | | | | | |
| | | | | | | |
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| | | | | | | |
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In a large car factory, comprising many different shops and departments, it is of great importance that each consignment of materials, tools or parts purchased from outside should be linked up with the work for which it is required, and exactly allocated beforehand. To ensure this the buyer distributes a copy of all orders to the departments they concern, stating where the material will be delivered and who needs it. On its arrival it is checked against the order and placed in bond till it has been "inspected."

Inspection

The system of inspection is of necessity very thorough. As soon as a consignment of materials has been received and checked, a certificate bearing their full description and destination is sent to the Inspection Department, and until this has been

signed they are not released from bond, either for the stores or for the shops. Frequently several tests or analyses are made, and samples of steel are sometimes worked on the tools before the consignment is tested in the laboratory. Thoroughness and efficiency in the Inspection Department are true economy; without them a large percentage of losses would occur in the various shops on account of undiscovered defects in the materials. Once certified by the inspector, materials can pass from bond into the stores, for issue to the works.

The same policy of delegating responsibility to the inspection department has proved invaluable in regard to tools and finished work, as well as in regard to raw materials. It is a rule in our works that the entire responsibility for the accuracy of

INSPECTION NOTE.

DATE _____ 19____

_____ STEEL BOND TO INSPECTION DEPT.

The following Steel requires Inspection and Release —

Bond No. _____ Suppliers _____

Order No. _____

Req. No. _____ Class _____

Dept _____ Brand _____

S.O No. _____ Condition _____

_____ Cast No. _____

Material labelled

 { Colours _____
 { Our Mark _____

| | Size | Lengths | Marks | Weight. | | | |
|-------------------|------|---------|-------|---------|------|------|------|
| | | | | Tons. | Cwts | Qrs. | Lbs. |
| _____ Bright Bars | | | | | | | |
| _____ Black Bars | | | | | | | |
| _____ Billets | | | | | | | |
| _____ | | | | | | | |

This Steel has been ordered for } _____
 the following Part Nos. }

This Steel { will } require Heat Treatment to meet Specification _____
 { will not }

RELEASE

From INSPECTION DEPT. TO STEEL BOND.

This Material is { Accepted } and is to be { Released }
 { Rejected } { Returned to } _____

(Austin) Test No. _____

OUR MARK.

All this Material to be stamped with

_____ and painted _____ colour(s).

Signed _____

Date _____

FORM 519

INSPECTION NOTE USED BY THE AUSTIN MOTOR CO. TO FACILITATE
 ACCURACY, ECONOMY AND SPEED

gauges and measuring instruments, and for the condition of all tools and jigs, rests on the staff of inspectors, through whose hands also all drawings issued to the workers must be passed.

Errors cannot thus be attributed to faulty gauges or inaccurate drawings, as under other systems they very often are; while the continuous inspection of tools and jigs effects a great saving in the workman's time. Instead of each operator having to go to the stores for a new tool, an inspector has already noted the defect and has one ready for him. In a sequence of timed operations, delay at

one point delays the whole. A copy of one of the forms used is given below.

We carry the system of immediate inspection right through the works. The moment a worker has completed an operation, his product slides automatically to an inspection table which is placed between his machine or group of machines and those of the next operators, and his work is inspected before it goes any further. By this means much wasted effort is prevented; if a machine has been set up wrongly, the fact is at once discovered, and only one faulty product is turned out by it instead of a series.

AUSTIN MOTOR CO., LTD.

N/7880

INSPECTION AND BUYING.

..... 19

To.....DEPARTMENT.

Please receive from INWARDS RECEIVING DEPARTMENT.

Supplied by.....

| Order No. | Requisition No | Shop Order | Specification No. | | | | |
|-------------|----------------|------------|-------------------|----|----|-----|------|
| Quantity | MATERIAL | | | T. | O. | Qr. | L.S. |
| | | | | | | | |
| REJECTIONS. | | | | | | | |
| | | | | | | | |

Received by..... Inspected by..... Date.....
Form 417.

The Time Basis of Work

Two of the greatest essentials of successful mass production are conservation of time and consolidation of interest.

An illustration of time-saving organisation is afforded in the construction of the motor-body in our works. On a raised track a sequence of no less

than twenty-six motor bodies are placed one behind the other; twenty-six workmen stand ready to carry out on each of them their respective operations; one inserts the window glass, another the trimmings, others add the handles and the head linings, the interior mouldings, the instruments and the upholstery. All the

operations in this sequence are so divided up and planned that each man's job can be completed within twenty minutes; so that three times an hour a bell rings, and a single movement of a lever shifts the whole twenty-six car bodies one stage further on the track, the front one, on which all the operations are completed, being simultaneously picked up by an overhead carrier, and taken elsewhere to be placed on its chassis. In the chassis assembly shops very similar arrangements are in use.

Everywhere throughout the works automatic conveyors are installed; and great importance is attached to the grouping and arrangement of machines and tools. The old factory system of placing together all the machines of the same sort has long been given up; the object now is so to arrange machines that there shall be the least possible movement from each operation to the next; and even this movement is in a great many instances effected by the force of gravity; the machines of the different operators in a sequence are connected by a system of feeders, or inclined planes, so that the workman who has finished his job on one piece of metal can give it a gentle push and it will slide down automatically, first to the inspection table, thence to the next machine. Unnecessary lifting of weights is thus eliminated, as well as waste of time, and any wandering about the shops with goods.

To keep track of the work and the cost we have a mechanical calculator in constant use, capable of sorting 25,000 cards an hour, and of reproducing the information which the cards contain in figures and columns on a roll of paper at the rate of 60 entries a minute.

Far from there being any objection on the part of workers to the installation of such time and trouble saving methods and devices, we have succeeded in establishing among our employees a sense of the consolidation

of interest between capital and labour; the workers realise that so-called labour-saving is in reality labour-enhancing, and that, because of the lowering of production costs to which such devices have contributed, more men are now employed at greatly increased wages than before.

Revolutionary Methods

To a great extent this result has been obtained by a method of estimating work values and wages which is somewhat revolutionary. Time is the basis of all the calculations; every one of the processes and operations required to produce the 5,000 different component parts in motor-cars has a standard time allowed for it; but we have proved that with careful planning, and with the willing co-operation of the workers, the standard time can be reduced to considerably less than half; they therefore set their own time limit upon every one of the 5,000 items, and the price of each is based on the time allowed for it.

The men thoroughly appreciate the fact that, by doubling the standard rate of output, they are doubling their own weekly earnings; and as they have no fear of any cutting of the wage rates, they realise that increased profits for the firm and increased wages for themselves go hand in hand, that greater speed of production means lowered unit costs, and an increased demand for their firm's cars.

They themselves take good care that no one of them keeps the others waiting by practising *ca' canny*, because a delay anywhere along the line holds up all who have to follow, and reduces their potential earnings. Organised labour has no grievance because the average wages paid throughout the factory are more than a hundred per cent. above the standard rate; even the customary rules of demarcation are to some extent superseded by a grading of the workers on the basis of their speed; so that if a Grade A workman needs an assistant to place

things in position for him, this less skilled work is allotted to a man of lower value.

We are particular about our costing system and accounts. As already mentioned, every component part made in the factory has an estimated cost in money and in time. These estimates are constantly being checked, and if the time limit is exceeded there is an immediate investigation to find out whether the delay is due to the man or the machine.

The prices which are to be paid for all parts and stores purchased from outside are also carefully worked out and determined; everything is done in the way of financial control to anticipate rather than merely to record; the cost of every section of the next year's programme is known beforehand. Barring difficulties, such as failures to obtain material, mere accounting, in the sense of keeping records of past history, is reduced to a minimum, because every operation, every finished product or piece of raw material has its predetermined value, and the cost of any combination of them can be estimated at any moment, as required.

The Weekly Statement

Week by week there is furnished to the Directors a statement in chart form showing for their guidance the actual progress and conditions of the business from every possible financial angle, and a similar statement for any longer period can be at any time compiled from these. This weekly statement gives the following detail:—

(a) The type of products that have been sold during the week, together with the quantities of each;

(b) The relative oncost per product, together with its percentage of the selling price;

(c) The total oncost absorbed by each product for the week;

(d) The total material consumed;

the total labour consumed; the relative oncost added, showing the over-all cost of each product;

(e) The average price obtained for each product during the season, accompanied by the average price obtained in the particular week;

(f) The total profit per unit of production, together with its percentage relation to the selling price;

(g) The accumulated profit for each type of product;

(h) The total week's oncost;

(i) The total week's sales for each type of product;

(j) The percentage of revenue contributed by each product;

(k) A complete analysis of the types sold throughout the world for the week.

Anticipatory Budgeting

In dealing with outside suppliers we adhere to the same principle of budgeting or anticipatory accounting. The cost of everything needed in the factory, whether made on the premises or purchased from outside, is carefully worked out and fixed beforehand.

Factory Organisation

Next to the railway siding where heavy materials are delivered is the "cutting-off" shop, in which bar steel and other unwieldy supplies of metal are cut into convenient lengths before being taken into store.

Some of the other shops into which a motor factory is subdivided are the foundry, the stamp shop, the press shop, and the various machine shops; the body shops, the department of the panel-beaters, coppersmiths and metal-workers, the enamelling plant, where time-saving aerographs or spraying apparatus have entirely superseded the paint brush; the coach-work assembly and finishing shop, and the erecting shops.

Several of these, such as the stamp shop, the foundry, and the press shop,

are each in the charge of a separate responsible head; others are grouped under a single head. To each of these responsible shop superintendents is allotted his "departmental obligation" from the production manager, informing him of the work to be produced in his department, and the date by which it must be finished and delivered. He is held to accept this obligation with its definite time limit unless he submits in writing any reason for not doing so.

The "production order," which he receives first, is followed by more detailed information in "shop orders" and in "work layouts" prepared by the Efficiency Department, in which full particulars are given of the materials to be used, and of the machines, tools, jigs, gauges, etc. with which each of the various operations is to be performed, as well as the time allowed in hours and minutes. When therefore the work starts, everyone knows just what is expected from him, both the individual workman and the head of the whole group or section.

Classifying the Parts

The immense number of separate parts in motor manufacture and of pieces composing the parts has already been noted; and it goes without saying that, both for the efficient keeping of store records and for the clear indication of the part needed on store requisitions, on production orders and instructions of all sorts, there must be a method of classification which is at once simple and comprehensive. A very useful method is to denote each class of component by a symbol, such as a letter of the alphabet, and to number serially all the separate parts

belonging to that class. There are others, but this is perhaps the best.

For instance, chassis parts may be classified as follows:—

AY, Road Wheels; B, Gear Box and Clutch Parts; C, Front Axle Parts; E, Engine Parts; F, Frame and Foot Control Parts; H, Steering Parts; N, Rear Axle Parts; Q, Tool Kit Parts; S, Standard Parts.

An Illustration

Using this classification, the work list given on the following page for a 12 H.P. chassis is readily intelligible to all readers.

B. 501 denotes the gear box, and the third column shows that the work list for the parts of the gear box that have to be produced in the shops is contained on nine supplementary sheets. A specimen follows of one of these nine sheets, covering sixteen of the fifty or so components of a gear box, each of which is indicated by a number following the letter B. On this sheet is stated the number of each part required, the material and its specification number, the form in which the material will be delivered, whether as a casting, a stamping, bar, or wire, and other necessary particulars. For example, B. 4,101 is the symbol of a ball spring cap, three of which will be required, to be made of M.S. 1, which will be delivered in bar form. M.S. 1 is the specification number of Mild Steel (untreated), with a minimum ultimate stress of 24 tons, and an elongation of 15 per cent. in 2 inches.

The above, I think, gives a short outline of the methods I have been asked to describe.

WORK LISTS—CLASSIFICATION OF PARTS

There are a number of separate parts in a motor-car. The method of classification adopted is to denote each class of component by a symbol, such as a letter of the alphabet. The charts below illustrate this classification.

(18B)

WORK LIST FOR 12 H.P. CHASSIS OF A CERTAIN TYPE.

| Section No. | Title of Section. | No. of Sheets. | Section No. | Title of Section. | No. of Sheets. |
|-------------|--|----------------|-------------|---|----------------|
| B 501 | Gear box. | 9 | W 505 | Road wheels (steel). | 1 |
| B 502 | Clutch. | 4 | | | |
| B 504 | Hand brake. | 5 | S 505 | Ball & roller bearings. | 2 |
| B 505 | Speedometer pinions & bushes. | 1 | | | |
| | | | Q 502 | Tools. | 5 |
| O 504 | Steering side tube. | 3 | | | |
| O 505 | Front axle. | 9 | Z 501 | Items for export cars only | 1 |
| | | | | | |
| F 508 | Frame details. | 8 | | | |
| F 509 | Foot control. | 8 | | | |
| F 510 | Frame. | 4 | | | |
| F 511 | Shock absorbers (Hartford), alternative. | 2 | | | |
| F 512 | Shock absorbers (Smith), alternative. | 3 | | | |
| | | | S 403 | Approved makes of ball & roller bearings. | 1 |
| H 505 | Steering. | 6 | S 502 | Approved makes of friction material (clutch). | 1 |
| | | | S 503 | Approved makes of brake material. | 1 |
| N 504 | Propeller shaft & universal joint. | 3 | S 501 | Approved makes of fabric universal joints. | 1 |
| N 505 | Rear axle. | 9 | | | |

Index for 12 H.P. chassis, T 3 Type.

(19A)

ONE OF 9 SHEETS—MAKING UP BY GEAR BOX WORK LIST.

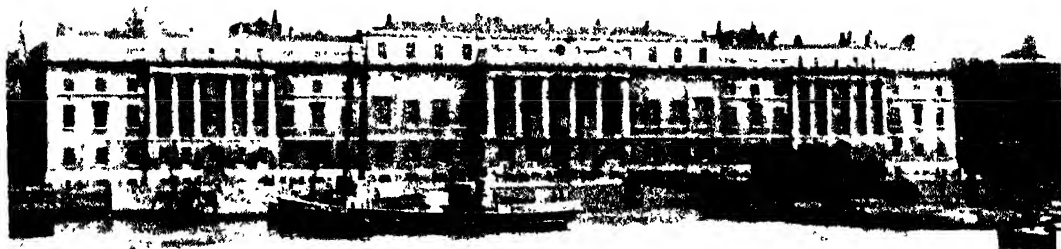
| Catalogue Number. | Part No. | Description. | No. Off. | Material Spec. No. | Form. | Size of Material | U.O. Note, No. & Date. | Remarks. | Dept. |
|-----------------------|----------|---------------------------------|-----------|-----------------------|--------|------------------|------------------------|----------|-------|
| | B 4008 | Change speed lever knob. | 1 | Aluminium & Exonite. | | | | | |
| | B 4009 | Reverse trigger. | 1 | Brass. | Press. | | | | |
| | B 4010 | Change speed trigger pin | 1 | M.S. 2 | Bar. | | | | |
| | B 4013 | Reverse catch spring. | 1 | S.S. | Wire. | | | | |
| | B 4101 | Ball spring cap. | 3 | M.S. 1 | Bar. | | | | |
| | B 4151 | Button for 3rd motion shaft. | 1 | H.S. 12 | Bar. | | | | |
| | B 4246 | Nut for trigger pin. | 1 | M.S. 1 | Bar. | | | | |
| | B 4337 | Speedometer idler bush. | 1 | G.M. 80 | Cast. | | | | |
| | B 9008 | Gear box front cover. | 1 | Aluminium (die cast). | | | | | |
| | B 9017 | 1st Motion shaft. | 1 | H.S. 13 | Stamp. | | | | |
| | B 9018 | Layshaft driving gear. | 1 | H.S. 13 | Stamp. | | | | |
| | B 9019 | 1st Speed wheel (driver). | 1 | A.S. 24 | Stamp. | | | | |
| | B 9020 | 1st & 2nd Speed Wheel (driven). | 1 | A.S. 24 | Stamp. | | | | |
| | B 9021 | 2nd & 3rd Speed wheel (driver). | 1 | A.S. 24 | Stamp. | | | | |
| | B 9022 | 3rd Speed wheel (driven). | 1 | A.S. 24 | Stamp. | | | | |
| | B 9024 | Lay shaft. | 1 | A.S. 17 | Bar. | | | | |
| Arrangement Sheet No. | | Sheet No. | Order No. | Title: Gear Box. | | | Section. B 501 | | |
| | | 1 | T 3 | | | | | | |
| | | No. of Sheets. | Quantity. | Date. | | | | | |
| | | 9 | | | | | | | |



Drum Scott

LONDON BRIDGE.

On the left Adelaide House, where several important importers lay their Office. Facing the river on the right is the Custom House.



CUSTOM HOUSE, LONDON.

The officials here deal with a greater value of imports than those of any other port in the world.

CHAPTER XIV

THE IMPORT TRADE

How "Invisible Exports" affect the Balance of Trade—Classification of Imports—Two Vital Questions—The Empire Marketing Board—The Imperial Economic Committee—Duties on Imports—Safeguarding of Industries—Imperial Preference—Methods of the Import Trades—Classes of Importers—Associations of Producers—The Financial Side—Saleroms and Markets—Mincing Lane—Documents for the Importer—Customs Requirements.

I

FACTS AND FIGURES

FOR many years the imports of Great Britain have greatly exceeded the exports in value. If there were no other factors operating to restore some sort of balance, the people of Great Britain would be in an unenviable position. In plain language, great numbers would have to leave her shores or starve. We are not a self-supporting country.

"Invisible" Exports

The reasons why we are able to pay for our imports by other means besides our exports, and the explanation why our national wealth is not depleted by the excess of imports over exports, are several. In the first place, we derive considerable revenue and profit from our shipping trade; a very important part of British business with other countries consists in carrying their goods in British-owned ships. It is estimated that the income of British shipowners and brokers from freights, commissions, brokerage, etc., in connection with the carrying of foreign and colonial goods consigned to this country, is something like £120,000,000 a year.

It has to be borne in mind also that a great deal of our imports are raw material which in the manufactured state is exported at a price that includes the manufacturing cost.

Again, London may be regarded as the world's financial clearing-house. Banks and City financial houses also act as financial agents for foreign and colonial banks and merchant houses. Then a substantial portion of the revenue of this country is derived from interest on British investments abroad. The estimated total of such investments is something like £270,000,000 a year.

These things represent what are called *invisible exports*, and the vast sums receivable from these sources are a set-off against our liabilities for imports, and so the excess value of goods imported from other countries as against our exports of goods is in normal years wiped out, and a substantial credit balance remains; but the year 1926 was an exception.

It is, then, because we have built up such a great mercantile marine service, because such vast sums of British capital are employed abroad and because London is the financial clearing house of the world, that we are able to increase our national wealth, although the value of our exports is so much less than the value of imported goods.

The Balance of Trade

Our visible imports being so greatly in excess of our visible exports, it is quite obvious that without the *invisible exports*, to which reference has been made, we could only pay for

the excess value of our imports over exports *out of capital*. Moreover, that capital would disappear in time, with the result that a considerable part of the population of these islands would be to a large extent without the necessities of life.

We may refer here briefly to the balance of trade, *i.e.* the balance of imports over exports; that balance in 1926 amounted to no less than £465,466,000. This was the largest amount in any year since 1919, when it was £663,000,000. The increase in this figure has given alarm in certain quarters, and it certainly merits attention.

Large imports are not in themselves an evil; far from it. The more a country imports, the richer it becomes, provided it does so on sound business lines. We must pay for these imports, or foreigners will not continue to send them. The vital question is, therefore, in what way are we paying for them, from income or from capital? If from the former, there is no real cause for alarm, but if from the latter, we must curtail our purchases.

The figures given by the Board of Trade for the three years 1924, 1925 and 1926 show an *excess* of imports over exports of—

| | |
|----------------|--------------|
| 1924 | £324,400,000 |
| 1925 | £383,600,000 |
| 1926 | £477,100,000 |

The figures include the imports and exports of bullion and specie, which are excluded from the ordinary trade returns. This accounts for the discrepancy between the figures for 1926—£465,466,000 according to one reckoning and £477,100,000 according to another.

The net national income from ship-

ping services in 1926 was estimated at £120,000,000. The net income of this country from overseas investments was estimated at £270,000,000 for 1926. The income from various services, such as financial transactions, commissions, discount of foreign bills and interest, brokers' commissions and earnings on exchange transactions and other miscellaneous dealings, was estimated at £75,000,000, making a total of £465,000,000.

The result, therefore, is as follows--

| | |
|----------------------------|----------------|
| Visible Imports | £1,292,700,000 |
| „ Exports | 815,600,000 |
| Difference | £477,100,000 |
| <i>Less</i> | |
| Invisible Exports as above | 465,000,000 |
| Adverse Balance . | £12,100,000 |

These imports and exports include bullion and specie—imports, £49,800,000, exports, £38,100,000—consequently they differ from those given below.

The year 1926 was, however, an exceptional year, largely owing to the strike of the coal-miners, which made that year a disastrous one for British trade. In 1925 the net balance *in favour* of this country was estimated at £54,000,000, and in 1924, £86,000,000.

British Imports

The following table shows, for the three years, 1924, 1925 and 1926, the value of the imports into this country and the proportion of such imports retained for home consumption, the balance being exported in the shape of manufactured goods.

This mass of imports is drawn from almost every country of the world.

| | Total imports. | Imports per head. | Imports retained. | Imports retained per head. |
|------|----------------|-------------------|-------------------|----------------------------|
| 1924 | £1,277,439,144 | £28 9 2 | £1,137,469,001 | £25 6 10 |
| 1925 | 1,320,715,190 | 29 6 6 | 1,166,672,391 | 25 18 1 |
| 1926 | 1,242,863,679 | 27 9 7 | 1,117,298,046 | 24 14 1 |

The chief countries from which they come are as follows. The figures are

for 1924, these being the latest available at the time of writing.

| | |
|------------------------|--------------|
| United States . . . | £241,189,641 |
| Argentina . . . | 78,955,013 |
| India . . . | 78,872,953 |
| France . . . | 66,578,211 |
| Canada . . . | 65,899,590 |
| Australia . . . | 59,022,426 |
| Irish Free State . . . | 51,095,818 |

| | |
|-------------------|-------------|
| Denmark . . . | £48,904,197 |
| New Zealand . . . | 46,964,167 |
| Netherlands . . . | 42,735,404 |
| Egypt . . . | 38,263,654 |
| Germany . . . | 36,888,265 |
| Belgium . . . | 36,386,576 |
| Sweden . . . | 22,504,967 |

The official tables do not include imports of gold and diamonds; consequently, South Africa, the largest producer of these commodities, does not appear in the list. Of the total imports of £1,277,439,144, no less than £889,566,147 came from foreign countries, and £387,872,997 from British possessions.

Board of Trade Returns

The Board of Trade divides imports into three main classes, and two subsidiary ones. The three former are (1) food, drink and tobacco; (2) raw materials, and articles mainly un-

manufactured; (3) articles wholly or mainly manufactured. The two other classes, both comparatively very small, are animals not for food, and goods sent by parcel post. For the three main classes the figures for 1924 were—

| | |
|-------------------------|--------------|
| Food, Drink and Tobacco | £571,127,940 |
| Raw Materials, etc. | 400,019,414 |
| Manufactured Articles | 299,773,852 |

The official returns give particulars as to the amounts imported from foreign countries and from British possessions respectively. For 1924 these were—

| | Foreign Countries. | British Empire. |
|-------------------------------|--------------------|-----------------|
| Food, Drink and Tobacco . . . | £353,011,285 | £218,116,655 |
| Raw Materials, etc. . . . | 269,203,889 | 130,815,525 |
| Manufactured Articles . . . | 265,192,579 | 34,581,273 |

These figures, which are taken from the most recent "Statistical Abstract of the United Kingdom," only deal with the years down to 1924, but figures showing the total value of our imports have appeared for the two following years, 1925 and 1926, and are given on the previous page.

The largest class of imports, it will be seen, is Food, Drink and Tobacco. Of imported meat, alive and dead, in 1924, 38·63 per cent. came from British countries, as follows—

| | |
|-----------------------------|-----------------|
| Irish Free State . . . | 19·75 per cent. |
| Canada . . . | 6·87 " |
| Australia . . . | 3·08 " |
| New Zealand . . . | 8·01 " |
| Other parts of the Empire . | 0·02 " |

leaving 61·37 per cent. imported from foreign sources, mainly from South

America, especially the Argentine Republic.

Report on Imports of Fruit

The Fruit Report issued in 1926 by the Imperial Economic Committee is a somewhat lengthy document. The value of the total fruit imports into the United Kingdom in 1924 was £48,300,000, of which £11,000,000 was paid to the United States, nearly £9,000,000 to Spain, £3,000,000 each to Greece and to Central America, and £1,300,000 to Turkey. Australia supplied fruit to the value of £3,000,000, Canada £2,000,000, South Africa £1,000,000, the West Indies £700,000, and New Zealand £168,000.

An admirable instance is given by the Committee of the way in which

the extension of an Imperial fruit-growing area may react to the advantage of the British manufacturer. Forty years ago some 30,000 acres at Mildura in Australia were part of a sheep station, providing employment for two boundary riders. Now that they are irrigated, and converted to fruit farming, they support a population of no less than 40,000 people, who purchase on the Australian basis an average of nearly £7 worth of British goods each yearly!

In the case of the three fresh fruits which are most popular in the United Kingdom, the Report points out that the supply is at present dominated in each instance, though from different causes, by a foreign country. The price of apples is greatly affected by the fluctuating surplus from the United States after supplying the home market; Spain has a natural advantage of position for supplying oranges, and the entire output of Jamaican and Central American bananas is under American control.

On the other hand, much of the Empire fruit from the Southern Hemisphere reaches Great Britain just when the nearer and more northern supplies have been exhausted, and so is marketed under less disturbed and fluctuating conditions than the home-grown and Canadian fruit. This applies to Australian and New Zealand apples, and to South African and Australian oranges and soft fruits.

In addition to a number of recommendations applicable to the growers and shippers overseas, the Committee make several references to the methods of fruit brokers and salesmen, and of fruit dealers and their organisations at the British ports. The Report says, for instance: "They are, as salesmen, rendering skilled and valuable service to the community, and are fully entitled to adequate remuneration. But we are strongly of the opinion that consolidated handling charges should be capable of detailed

and satisfactory analysis into the several items of out-of-pocket expenses, and that such analysis should always be available to the shipper.

"Further, we think that the commission should be sufficient to cover all other expenses incurred in connection with the business." And again: "Where goods are sold on shipper's account in a distant market it is particularly desirable that there should not be avoidable divergence of interests. When the principle of a per package profit, irrespective of sales price, is introduced, a broker's interest may quite conceivably lie in the direction of encouraging shipments of quantities much in excess of those which can be disposed of to advantage."

Closely connected with the discussion of the consignment dealer and importer are suggestions for greater supervision and control of imports after their arrival in Great Britain by the overseas producers themselves, acting through their own representatives sent over for the purpose.

Imports of dried fruit, bottled and canned fruit, fruit pulp and jams and juices, and of nuts, are also dealt with at some length in the Report, and are deserving of consideration by those interested, as also is a Report dealing with the importation of food-stuffs generally, other than meat and fruit.

Two Questions

Two questions arise on a consideration of Great Britain's import trade. The first is: Can some of the goods imported be produced at home, and so give employment to British labour? The second is: Can a larger proportion of the imports be obtained from the Overseas parts of the Empire? The two questions are so closely related to each other that they are best answered together.

A reference to figures given on another page will show that the Board of Trade divides our imports into three main classes. Taking the three

classes in order, it is evident that the imports of food, drink and tobacco cannot be seriously curtailed without injury. True, a little more food could be grown at home, and some think a duty on foodstuffs imported from foreign countries would stimulate home production, being, in addition, a valuable insurance in the event of war. On the other hand, it should be remembered that duties of this kind would invariably raise the price of food, a matter of vital importance to the dwellers in the populous towns, who form the great majority of the population.

The same remarks are true of the articles in the second class, raw materials and articles mainly unmanufactured. The more cotton, copper, rubber, oil, sugar, and other raw materials we can import the better for our manufacturing industries. The bulk of these materials cannot under any circumstances be produced at home. Sugar is, perhaps, an exception, and an increasing amount of beet sugar is being grown in this country.

With the third class the case is quite different, and here there is hope for the manufacturer faced by acute foreign competition. In 1924, to take a sample year, we imported about £300,000,000 in value of articles wholly or mainly manufactured. A little over 10 per cent. of this came from the Empire, so the amount open to attack is something like £270,000,000.

There are two methods of attack. The first is to improve, and thus to cheapen, methods of manufacturing and marketing, and so meet and beat the enemy on his own ground. This is mainly a matter for the individual industries, and, aided by the recognised excellence of British workmanship, a good deal is being done in this direction, as Sir Charles Macara shows in another article in this work. Research, some of it on a national scale, is also helping to solve the problem, and the powerful aid of the advertiser has recently been called

upon. The second is to give a preference as regards customs duties to goods produced within the Empire. This is discussed later in the chapter.

The Empire Marketing Board

The Empire Marketing Board was established in May 1926, on the recommendation of the Imperial Economic Committee, for the purpose of advising the Secretary of State for Dominion Affairs about the expenditure of an annual grant for the furtherance of the sale of Empire products (including home-grown agricultural produce) in this country. The grant for the year 1926-27 amounted to £500,000, but the Government has stated that in future years it will be £1,000,000.

The Secretary of State is the Chairman of the Board, and on it are representatives of other Government Departments—the Financial Secretary to the Treasury, the Parliamentary Secretary to the Ministry of Agriculture, and the Parliamentary Under-Secretary for Scotland. Other members represent Canada, Australia, New Zealand, South Africa, the Irish Free State and India. There is a representative of the Colonies and Protectorates. The co-operative interest has a member thereon, as has the advertising profession.

The work of the Board, which is entirely non-party in character, falls into two main branches—publicity and research, the latter including both scientific research and economic investigation.

The purpose of the Board's publicity is to bring home to all in the United Kingdom the significance and advantages of purchasing home and Imperial produce, in preference to the products of foreign countries, and such media as newspaper advertisements, poster displays, general Press information, exhibitions and fairs, lantern lectures and the cinema are employed to this end.

In the field of scientific research, the Board, working always through other Departments or Institutions, has recommended grants for the promotion of research into a number of questions of importance to agriculturists throughout the whole Empire. The subjects already explained or assisted include an investigation of the mineral contents of natural pastures, the organisation of a chain of research stations for the study of problems of tropical and sub-tropical agriculture, low temperature storage and transport, entomological research, the control of noxious weeds, etc. Regarding economic investigation, the Board aims at collecting and disseminating economic information likely to be of value to producers and distributors.

To aid this movement it is desirable that Empire goods should be marked in a distinctive manner, and under the Merchandise Marks Act, which came into force on Dec. 16th, 1926, this must be done. Goods originating within the Empire must be clearly marked, and proceedings can be taken against foreign manufacturers who represent their goods to be British.

Another form of activity which has the same end in view is the holding of exhibitions where manufacturers can display and make known their wares. The most important of these is the annual British Industries Fair which in February and March, 1927, was held in two places, London and Birmingham. The heavy industries were shown in Birmingham and the lighter ones in London. There the Empire Marketing Board arranged a great display of Empire goods. The Fair is intended primarily for buyers from the trades, and something like 100,000 buyers visited the 1927 Fair, of whom about 1,600 came from overseas.

A kindred movement is the holding of exhibitions of goods made in the United Kingdom in Canada and

Australia. The Federation of British Industries took a leading part in promoting those arranged to be held in Toronto and Melbourne, the former in August and September, 1927, and the latter in February, 1928.

Further reference to suggested means for developing our export trade is dealt with in the chapter on the Export Trade.

The Imperial Economic Committee

In March, 1925, an Imperial Economic Committee was established representing the various Governments of the self-governing parts of the Empire, "to consider the possibility of improving the methods of preparing for market and marketing within the United Kingdom the food products of the overseas parts of the Empire, with a view to increasing the consumption of such products in the United Kingdom in preference to imports from foreign countries, and to promote the interests both of producers and consumers."

Food products constitute the largest of the three great groups of imports, and the Committee, who published their first report in the same year, point out the close connection between the import and the export trade, and the material advantage to Great Britain, quite apart from any sentimental considerations, of purchasing as much as possible both of food and raw materials from the countries which are the best customers for British manufactured goods.

Taking the inhabitants of the self-governing Dominions and the inhabitants of foreign countries head for head, the difference between their value as customers to British manufacturers is very striking. Throughout the Dominions the individual purchases of British goods in 1924 averaged £6 17s. 3d., while those of Europeans averaged 12s. 1d., of Americans in the United States 9s. 6d., and of South Americans 18s. The importance of encouraging the growth

of population in the Dominions by importing from them to the fullest possible extent is thus self-evident.

The Committee fully realise that this is not solely a matter for the actual importers; their hands need to be strengthened by a steadily increasing demand for Empire products on the part of the community, and this in turn will depend on a more widespread appreciation of the importance of selective purchasing, as well as on a more reliable system in many lines of grading, packing and marking Empire produce.

The importance, however, of developing the British Import trade wherever possible on Empire lines is summed up in the Report thus:—

“We have thus, they say, a chain of causation. The development of the home market for Empire goods will stimulate the migration of the surplus population at home into the other parts of the Empire and increase the number of Britons overseas who demand the products of British industry. Three desirable results will be attained simultaneously: the greater prosperity of the overseas Empire, the better distribution of the white population within the British Commonwealth, and the better employment of the population which remains at home. Even so, the sequence of economic benefit is not exhausted. Imperial development makes a special demand on the services of British shipping, and . . . with the migration of population must also go the investment of capital, still further developing the Dominions in preference to foreign countries.”

Import Duties

• The British Government plays a part in assisting home and Imperial trade by imposing duties on imported goods and products of foreign origin, and distinguishing in this matter between them and goods from the various parts of the Empire. It is fairly certain

that the majority of the electors of this country are against the establishment of tariffs on any considerable scale, and consequently all political parties, when in power, have adhered to a free trade policy.

Common sense suggests, however, that there are times and seasons when exceptions must be made even to the most desirable policy, and such was the case in the unusual economic conditions that followed the conclusion of the World War. The policy introduced in this country to meet these exceptional circumstances really began in 1915, when Mr. McKenna, as Chancellor of the Exchequer, imposed duties on motor cars, motor bicycles, musical instruments, clocks, watches, cinematograph films and one or two other articles. These duties were discontinued by Mr. Philip Snowden, Chancellor of the Exchequer in the Labour Government, the change taking effect from August 1924, but in 1925 they were again imposed by Mr. Winston Churchill, who, in 1927, added motor tyres to the list. Customs duties were imposed by the Finance Act, 1925, on imported natural and artificial silk and articles made thereof, with corresponding excise duties on home-made artificial silk.

In 1921 the Coalition Government passed an Act for the purpose of imposing “duties of customs on certain goods with a view to the safeguarding of certain special industries, and the safeguarding of employment in industries in the United Kingdom against the effects of the depreciation of foreign currencies and the disposal of imported goods at prices below the cost of production and for purposes connected therewith.”

The demand for a measure of this kind was more than usually insistent, and indeed justified, owing to the depreciation of the German and other currencies in the years just after the World War. This enabled foreign manufacturers to produce goods at inordinately low prices, and to dump

their surplus stocks on the British market. The obvious unfairness of this proceeding, at least to the British manufacturer, led many staunch free traders to support this Bill. The duty was fixed at $33\frac{1}{3}$ per cent. on the value of the imports of certain articles. It is not necessary to detail these here, a list can always be obtained from the Board of Trade. The Act stated that other articles might be brought into the list, if good cause was shown for their inclusion.

Safeguarding of Industries

In 1925 a further Safeguarding Act imposed a duty of $33\frac{1}{3}$ per cent. on certain other classes of goods; these duties, like the earlier ones, were imposed in the first instance for five years, with preference, as before, for Empire products. As the duties imposed by the Act 1921 were for five years only, in 1926 resolutions were passed for the continuance of these duties until August, 1936, with one or two alterations in the scale.

The procedure is that application must be made to the Board of Trade by the representatives of the industry affected. The Board then appoints a committee to inquire into the matter. If the committee reports that a duty should be imposed, and the Board and the Treasury agree, such will be included in the Finance Act.

The rules to be applied by the Board of Trade in deciding whether to order an inquiry will be as follows:—

(1) The Board must be of opinion that the industry applying for an inquiry in respect of the whole or any part of its production can reasonably be regarded as of substantial importance, on account either of the volume of employment engaged in such production or of the nature of the goods produced.

(2) The Board must be of opinion that there is *prima facie* evidence that the competition of foreign imports in the industry is exceptional, and that by reason of such competition employment in the production of the goods in question in the United Kingdom is being, or is likely to be, seriously affected.

(3) The applicant industry must also

show that in the countries from which such competition largely comes, the conditions in one or more of the respects set out in paragraph (5) of the rules hereunder, for the guidance of committees, are so different from those in this country as to render the competition unfair.

(4) The Board of Trade will, in their discretion, reserve the right to refuse an inquiry, irrespective of other conditions obtaining in the industry, if they are of opinion that the industry is not carried on in this country with reasonable efficiency and economy, or that the imposition of a duty on goods of the class or description in question would exert a seriously adverse effect on employment in any other industry.

A Committee appointed by the Board of Trade for such an inquiry will be instructed to report on the following:—

(1) Whether the applicant industry is, by reason of the volume of employment engaged in the production of the goods to which the application relates, or by reason of the nature of the goods produced, an industry of substantial importance.

(2) Whether foreign goods of the class or description to which the application relates are being imported into and retained for consumption in the United Kingdom in abnormal quantities.

(3) Whether the foreign goods so imported are being sold or offered for sale in the United Kingdom at prices which are below the prices at which similar goods can be profitably manufactured or produced in the United Kingdom.

(4) Whether, by reason of the severity and extent of such competition, employment in the manufacture or production of such goods in the United Kingdom is being, or is likely to be, seriously affected.

(5) Whether such exceptional competition comes largely from countries where the conditions are so different from those in this country as to render the competition unfair.

Competition for the purpose of such inquiry is not to be deemed to be unfair unless it arises from one or more of the following causes:—

(a) Depreciation of currency operating so as to create an export bounty.

(b) Subsidies, bounties, or other artificial advantages.

(c) Inferior conditions of employment of labour, whether as respects remuneration or hours of employment, or otherwise, obtaining amongst the persons employed in the production of the imported

goods in question as compared with those obtaining amongst persons employed in the production of similar goods in the United Kingdom.

In making their report upon the alleged unfairness of the competition, the Committee may call attention to any special circumstances by reason of which, in their opinion, the industry in the United Kingdom is placed at a serious relative disadvantage.

(6) Whether the applicant industry is being carried on in the United Kingdom with reasonable efficiency and economy.

(7) Whether the imposition of a duty on goods of the class or description in question would exert a seriously adverse effect on employment in any other industry, being an industry using goods of that class or description in production.

(8) Whether, having regard to the above conditions, the applicant's industry has, in the opinion of the Committee, established a claim to a duty; and, if so, what rate or rates of duty, in the opinion of the Committee, would be reasonably sufficient to counteract the unfair competition.

Imperial Preference

Imperial preference, apart from these special duties, was introduced in the Finance Act of 1919, and has been in force since June 2nd, 1919, for tea, and since Sept. 1st, 1919, for the other articles to which it applies. This preference takes the form of an additional duty, varying from 2s. 6d. to 4s. 6d. per gallon on foreign spirits, and a reduction of the duty on other articles produced within the Empire. These are one-sixth of the customs duties on tea, cocoa, coffee, chicory, sugar, glucose, molasses, saccharin, and other articles containing sugar, and motor spirit, and of varying amounts in the duties on wine.

The allowance on Empire-grown tobacco is one-quarter of the duty, this having been increased from one-sixth in 1925. Dried currants, raisins, figs and plums of Empire origin are admitted free, and another change made in 1925 was to give an increased preference to wine. To avoid hardship to the home producer the excise duties on sugar, chicory, molasses, glucose, saccharin and tobacco have

been reduced to correspond with the preference allowed to importers.

It is not always easy to decide what exactly, in the case of certain articles, constitutes production within the Empire. The Customs authorities therefore, have put on record their views on this matter. These preferential rates "are granted in respect of certain goods as specified in the tariff, when they are shown, to the satisfaction of the commissioners, to have been consigned from and grown, produced or manufactured in the British Empire. Manufactured articles generally are not entitled to the preferential rates unless 25 per cent. of their value is the result of labour within the British Empire."

Manufactured tobacco, refined sugar syrup, molasses and extracts from sugar, however, are entitled to the preferential rate of not less than 5 per cent. of their value as the result of labour within the British Empire; but the preferential rate is granted only in respect of such proportion of the manufactured article as corresponds to the proportion of dutiable material used in its manufacture which is shown to have been grown or produced in the Empire.

Sugar, refined in a bonded refinery in Great Britain or Northern Ireland, and Cavendish tobacco, manufactured in a bonded factory in Great Britain or Northern Ireland, are similarly entitled to the preferential rate only to the extent to which they are manufactured from dutiable material grown or produced in the British Empire.

The preferences mentioned are all that are recognised by the Customs authorities of the United Kingdom, as the main object of the duties is, as it has always been, to raise revenue, not to influence trade. No discrimination in this matter is in force as regards goods imported from different foreign countries. In a number of cases there are treaties laying down that most-favoured-nation treatment must be accorded to the goods of

particular countries on importation into the United Kingdom. In one or two cases, *e.g.* France and Peru, such treaties as are in force make no definite provisions. In the former case it is left to the internal legislation of the country concerned, while in the latter all reference to the customs duties is omitted. In certain other cases there are no treaties in force.

II

METHODS OF THE IMPORT TRADE

Speaking generally, the trade methods of importers are the exact counterpart of exporters, explained in a previous chapter. The larger merchants sometimes engage in both trades; a Manchester house exporting to the East may also import produce from the same countries to which he is exporting.

For our present purposes we shall divide Importers into two classes:—

Manufacturers and Producers

A large proportion of the goods and produce imported into this country is done by manufacturers who own or control their own sources of supply of raw material, or who own or control factories in other countries, from which they supplement their own home production. Many home manufacturers also, of course, purchase supplies of raw material direct from other countries.

There are also producers who own plantations overseas, tea, coffee, cotton, rubber, etc. The head offices of these companies may be in London and their plantations managed on the spot in India, China, Ceylon, the Straits Settlements, or wherever else they may be situated. Cocoa manufacturers bring raw cocoa from their own sources of supply in West Africa, the West Indies and other tropical countries. In the same way, soap-makers own their own oil-producing forests, whale fisheries, and other sources of the fats and oils they need.

In other industries there are importers employing similar methods. Glove manufacturers, for example, often supplement the heavier goods they make in England by importing the whole output of controlled factories in Belgium, France or Northern Italy.

In the majority of cases where large quantities of produce are imported in bulk, such as tea, fruit, wool, etc., the produce finds its way to centralised markets, or sale-rooms in London for ultimate disposal, as we shall see later.

Import Merchants

The two largest groups of imports are foodstuffs and raw materials. A great proportion of these both, especially of foodstuffs, are imported on consignment, and sold either by public auction or by private treaty in the recognised sale-rooms, exchanges, or large wholesale markets. The producer makes arrangements with the importing merchant to receive and sell his produce, and the latter's business is to attend to its clearance through the Customs, its delivery in good order at the market or its safe storage if it is to be sold by sample, its sale for the best price obtainable, and the remission to the shipper of an account of sales and the balance of the proceeds. We shall explain later the procedure at these centralised markets.

Imports against orders are most frequent when a manufacturer commissions a merchant or agent to buy for him raw materials from abroad; or a wholesale merchant in the home trade orders through an importer certain specified manufactured goods he needs from overseas. In the case of many commodities market prices are cabled from the Dominions or from foreign centres day by day. The merchant receives daily information as to current prices at the port of shipment, cables his orders to ship the goods, either to him or to a shipping agent whom he instructs to

receive and clear them through the Customs.

In many cases importers employ their own buying agents or have special representatives in their own employ with whom they are in constant touch by mail or cable. The agent, or the representative, is sometimes given a fairly free hand to buy where bargains may be found, but generally he will keep his principals informed of special offers or opportunities and wait his instructions before actually buying. Part of the duties of these direct agents may be also to carry out all shipping arrangements.

There are also brokers who work on their own behalf in buying up a cargo, or part of one, selling the goods to a number of buyers. There is also the commission agent who takes no trading risk himself, his remuneration being on a commission basis. Such commission agents in London receive a consignment from a foreign exporter, making all the necessary arrangements for the goods being landed and warehoused, arranging for their sale by auction or in the usual sale-rooms from samples drawn from the bulk. Thereafter the commission agents account for the transaction to the exporter.

Manufacturers who import raw materials, and also large wholesale houses, have to rely on their own experience and good judgment when it is a matter of necessity to buy well ahead of their actual requirements. Frequently it is necessary to arrange for regular supplies, and it becomes needful to buy for "forward delivery." If a manufacturer never knew at what price he could buy raw material months ahead he would never be in a position to fix the selling price of his own goods for the season; it is impossible in competitive businesses to adjust one's prices continually according to the rise or fall in the cost of raw materials. "Futures" is a term well known in certain import

circles. It has reference to the buying of foreign produce for shipment at some future date. Importers, manufacturers and merchants speculate in "futures" of cotton, corn and many other things, just as some speculators on the Stock Exchange do in connection with fluctuations in the prices of stocks.

Producers' Associations

A recent development affecting certain classes of essential imports is for the trade to be increasingly controlled by strong combinations of overseas producers, who regulate the shipments according to the estimated demand, and endeavour to eliminate speculation in their products by stabilising prices. Some notable examples of this modern trend are the Canadian and American Wheat Pools, the New Zealand Dairy Produce Board, the British Australian Wool Realisation Association, the Californian Fruit Growers' Association, the Oil and Copper combines, and the German Coal Kartel. A sign of the times also is the increasing intelligence of primary producers in many lands and their growing determination to have some say in the marketing of their products, sometimes resulting in their combining in smaller groups than those mentioned above. Thus they are able to maintain an agent or representative in Britain to watch the markets and superintend the selling of their produce.

III

THE FINANCIAL SIDE OF THE IMPORT TRADE

The methods of financing foreign trade have been fully explained in the chapters, III and VII, Vol. I, dealing with the Export Trade and the International Exchanges. The financial machinery of the Import trade is much the same as that employed in the export of goods, the position being reversed. The principal means em-

ployed are the use of various kinds of Bills of Exchange; telegraphic transfers when it is desired to settle obligations in foreign money immediately (in this case the importer instructs his bank to transmit by cable to the foreign bank an order to pay a specified amount to a third party); documentary credits arranged for by the importer, with his bankers, who arrange by mail or cable a credit with a specified bank on the other side.

For example, to enable the shipper to draw on the importer at the time of shipment the latter "opens a credit" through his bank. Credits are either "open" or "documentary"; in the first case, the importer's bank, acting on his instructions, issues a "letter of credit" authorising the firm abroad to draw on them for any sums up to a specified amount, and undertaking to "accept" the bills or drafts on presentation. Such a letter will have force only to a certain date, when it will be replaced by a fresh one; the shipper, therefore, has to state the number of the L/C (letter of credit) against which he draws; in the case of a documentary credit he has also to produce the shipping documents, the bill of lading, invoice and insurance policy or letter, and to send them with the draft; and a limit, usually 75 per cent. of the cost of the goods, is set to the amount which he may draw.

A Banker's Explanation

In a booklet issued by the Westminster Bank, the method of that Bank is explained as follows :—

"The procedure on this side will commence with the filling up of the Westminster Bank's order form by the importer and the insertion therein of all necessary details as to the amount and the nature of the shipping documents required; these should conform in essential particulars with the terms of the contract. The inclusion of minute particulars as to sizes and measurements is not desirable and seriously adds to the cost of cabling, if this be necessary.

"Whether the Credit is to be opened by mail or cable will, of course, depend on the urgency of the shipment. If the seller has expressed a wish for the business to be put through a specified bank, the name of such bank must be inserted in the order form, otherwise the Westminster Bank will use its own agent. Such vague terms as 'about,' 'approximately,' etc. should not be employed unless unavoidable, nor should any other instructions be capable of more than one interpretation, as only difficulties and friction can result.

"Goods purchased at a sterling price necessitate a sterling Credit, but where the beneficiary sells in his own currency he will probably require the Credit to be opened in that currency. It is possible to open Credits in a combination of currencies, but clear instructions must be given to the Bank as to the moment the currency paid out is to be converted into sterling. There may be a considerable difference between the rate of exchange ruling on the day of payment (which would be the day on which the foreign bank would convert) and on the day the documents arrive in London (which would be the day the Westminster Bank converts).

"Assuming the Credit has been opened in sterling, all loss of interest falls on the beneficiary, but in the case of a foreign currency Credit, the Bank must charge interest from the day its agent pays the beneficiary until the day the documents reach this side, unless the customer thinks it may be more profitable to buy the required currency in anticipation. The Westminster Bank can arrange the purchase, either at the time of the establishment of the Credit, or at any later time prior to its utilisation, if preferred. The customer will appreciate that all subsequent instructions to extend, amend, vary, or cancel a Credit must be put through the Westminster Bank; no notice would be taken by its agents of instructions sent direct by a customer or through any other channel whatever. In the case of confirmed Credits, all modifications are subject to the consent of the beneficiaries.

"Notwithstanding the increasing tendency, to which reference has already been made, for foreign exporters to trade in their own currency, they not infrequently prefer to have Credits opened in London rather than locally, perhaps with a view to employing the resulting sterling in the purchase of English goods.* In this case, instead of requesting its foreign agent to open the Credit, the Westminster Bank advises the exporter direct (by mail or cable as desired) that a Credit has been opened in his favour here. The main point of distinction is that the exporter must present his documents

to the bank in London before being entitled to payment, although, should circumstances render such course more convenient, any bank in his own town would doubtless negotiate his drafts on the strength of a Confirmed Credit advice received from the Westminster Bank."

The reader who wishes to make a study of the finance of foreign trade and the methods of the financing of the trade of various foreign countries is recommended to consult Mr. William F. Spalding's excellent book, "The Finance of Foreign Trade" (Pitman & Sons).

IV

SALE ROOMS AND MARKETS

As stated on a previous page, a very large proportion of the food-stuffs and of other produce imported on consignment is sold by auction or through market brokers in London. The recognised places for sale for various imported goods are:—

THE COMMERCIAL SALE ROOMS, Mincing Lane, is the centre for the sale of tea, coffee, sugar, cocoa, spices, drugs and chemicals, hides and skins, ivory, mother-of-pearl and tortoise-shell, feathers, rubber and dried fruits.

THE CORN EXCHANGE, Mark Lane, is the meeting place for merchants trading in corn and other cereals. It is open on three days in the week. Samples of various classes of grain are displayed, drawn from a wide range of stocks at the dock warehouses. There are also Corn Exchanges in many provincial towns.

THE BALTIC MERCANTILE AND SHIPPING EXCHANGE, St. Mary Axe, is the meeting place for produce merchants, shipowners and shipbrokers, dealing in grain, oil, oil seeds, and general produce.

THE WOOL EXCHANGE in Coleman Street is a meeting place for traders interested in wool. At intervals there are auction sales of large consignments of imported and home-grown wool.

THE COAL EXCHANGE in Lower Thames Street is a market place for

those interested in mining and the coal trade.

THE TIMBER EXCHANGE, 125, Cannon Street, is a centre for timber, sales for which are also held at Winchester House, Old Broad Street.

THE HOME AND FOREIGN PRODUCE EXCHANGE exists for the sale of provisions and dairy products.

There are other special commodity exchanges, such as The London Iron and Steel Exchange; The Oil Exchange; The Fur Sales Rooms; The Hop and Malt Exchange, etc. Covent Garden Market and Pudding Lane Market are for green fruits, vegetables, flowers, etc.; Smithfield Market for meat, and Billingsgate Market for fish.

The above are all in London; some other markets are THE LIVERPOOL EXCHANGE, chiefly for cotton and for imports from the West Indies, and THE MANCHESTER EXCHANGE, for cotton.

Exchanges similar to some of those we have named exist in other large cities where members go "On 'Change" for the staple article. These exchanges serve the purpose also of regulating conditions and trade usages.

Detailed notices of forthcoming sales at the various sale-rooms and exchanges are published daily in the "Public Ledger," together with information as to shipments from foreign ports, current prices, and stocks held in the Port of London warehouses.

As a matter of interest we describe one of these great markets, and select for this purpose the Mincing Lane Market.

Mincing Lane

The Commercial Sale Rooms in Mincing Lane, London, are the scene of the greatest tea market in the world. Leaving out of account an immense quantity of tea which is grown in China and consumed by the Chinese themselves, which therefore does not come on to the world's markets, the total annual production of tea in all

countries is less than 800 million lbs., and of this total about 450 million lbs. is imported into Great Britain, the bulk of it for British consumption, and the remainder for re-export. The Co-operative Wholesale Association and other large tea-blending and distributing firms make use of the port of Manchester, but with this exception practically all the tea which arrives in the United Kingdom passes through the Port of London, and is sold in Mincing Lane.

More than four-fifths of the tea consumed in the United Kingdom is grown in the British Empire, in India and Ceylon, while most of the rest comes from Java and the Dutch East Indies, and a small and diminishing amount from China.

In India much the largest tea-growing area is Assam, where there are nearly half a million acres under cultivation; most of the Indian tea-gardens being owned in large groups by joint-stock companies.

Tea-planting in Ceylon owes much of its development to the devastation of the coffee plantations about 1870 by a fungus, when the planters courageously started tea-growing in the place of coffee. In Ceylon there are many more small estates, of 300 or 400 acres, owned by resident independent planters, than in India; but all the available land in the island has been taken up, and it is not often that any of these plantations are for sale.

Tea bushes are grown from seed, the seedlings from the nursery being planted four or five feet apart, in land which has been thoroughly cleaned and trenched, and terraced to prevent its being washed away by heavy rains. For several years the plants are carefully tended, manured, and pruned, and can then be cropped annually for half a century. The leaves are picked at intervals of about a fortnight during the months from March to November, and are then withered, rolled, fermented or oxy-

dised, dried, and finally sorted for shipment.

Tea arrives in Great Britain at the instance of the importers, who may be the actual growers or their agents, or importing merchants. By them it is immediately placed in bonded warehouses, owned either by the Port of London Authority or by large wharfinger companies. All tea being liable to duty, the warehouses are responsible to the Customs authorities for the revenue on the tea entrusted to their care from the moment it leaves the ship. The hatches of the river boats are secured by Customs locks, and unlocked at the warehouses by Customs officers, in whose presence the tea is carefully weighed, and the weights and tares are then "scribed," or cut into the packages to prevent obliteration.

As soon as this is done, the full description of each lot or "break" of tea is entered on a warrant, which is given to the importer by the wharfinger or warehouseman, and this warrant becomes the certificate of ownership of the tea described on it. The transfer of the warrant, after a sale has been completed, carries with it the transfer of the ownership.

Buying and Selling Described

The actual buying and selling is transacted almost entirely between brokers; selling brokers acting for the importers, and buying brokers for the great majority of purchasers. The auction sales are public, and there is a certain amount of direct buying, but, apart from the advantage of making use of the broker's knowledge and experience, many of the large tea-dealers and blenders prefer to buy anonymously, and not to let their competitors know just what their purchases are.

When a broker has been commissioned to sell a consignment of tea, he lists the various lots of break, composing them in a catalogue accord-

ing to their grades and weights and trade descriptions; and in order that he may list them accurately, and also estimate the price he ought to get for them, he sends to the bonded warehouse for samples of each break. This sampling is essential to both kinds of brokers, and to many of the ultimate purchasers as well; and authority to obtain samples is given and renewed annually by the Tea Brokers' Association to all properly accredited firms, who make application in due form.

The warehousemen put the tea on show; and in the show-room one package of each break or lot is opened, to be used for samples, the package being generally a chest, containing about 100 lbs., but sometimes a half-chest or a box, containing respectively about 70 lbs. or 20 lbs. For every sample that is taken away a "return" of the same quality and quantity is handed in, so that the package weight may be maintained. Boys from the offices of the various brokers and dealers attend the warehouses, and sit at a long table, after giving up their "returns," and employees of the warehouse bring them their samples from the tea-chests.

Tasting the Tea

Tea-tasting, for which the samples are required, is an art in which an amazing degree of expertness is attained, but only after many years of practice and experience. It demands a natural sensitiveness of both taste and smell, cultivated and developed by much careful training. The apparatus necessary includes delicately balanced scales, to insure accurate measurement of the quantity of tea infused, pots of identical cubic capacity so that the same amount of water may be used, and special cups numbered underneath for identification.

The prospective expert begins his education with his nose, and practises

the art of differentiating teas by their aroma. For the purpose of tasting, tea is made with water just brought to the boil, never reboiled, is allowed to stand five minutes, and when in the cups is cooled to a pleasant temperature, excessive heat detracting from the tongue's sensitiveness. Practice commences with the teas of different countries, and when these can be accurately named it passes to the teas of different districts, such as Assam, Darjeeling, Sylhet, Travancore, and many others. Gradually there is acquired the power of classifying every sort of tea, both as to its origin and quality, and of assessing its value, whether with the object of selling it or buying it.

When the selling broker has sampled the teas he has to sell, and estimated their value subject to the current conditions of supply and demand, he issues his catalogue to his regular mailing list of prospective buyers, stating the date of sale, the number of breaks and packages, the description of each lot and its weight in lbs., the warehouses in which the teas are housed and are on show, and the importing firms under whose orders he is selling each consignment; and the buyers who are interested then take samples, and, after tasting, mark on their catalogues the prices up to which they are prepared to bid.

Auction sales take place on regular days each week—for Indian teas on Mondays and Wednesdays, for Ceylon teas on Tuesdays and, if necessary, on Thursdays also, and for Java and all other teas on Thursdays. As each lot is auctioned the buyers call out the prices they will give, and bids advance a farthing at a time per lb.

After the sale the selling broker sends his principal a contract, stating to whom he has sold the tea; and on the following Thursday a "weight note" is issued to the buyer, containing a copy of the details on the warrant, the price at which the sale

has been effected, the total amount payable, the deposit required immediately, averaging about £1 a chest, and the sum remaining to be paid on or before "Prompt Day," which is three months later.

Whenever the tea is required by the purchaser, whether on Prompt Day or before, the broker collects the balance of the purchase money, and hands it over to the importing merchant, and in exchange receives the warrant for the buyer, which is the document of title to the tea. Interest at 5 per cent. is allowed on the deposits, and on the purchase money for such time as elapses between its payment and the Prompt Day. If the tea is left in warehouse longer than three months, the purchaser pays rent after that period.

A Clearing House for Tea

In practice a great deal of time and trouble is saved by the deposit of all documents and the payment of accounts through the central Tea Clearing House in Philpot Lane, which forms a useful link between the wharfingers, or warehouse owners, and the trade. Fixed rates are charged for landing and delivery, for wharfage, housing, weighing, placing on show and sampling, and all the other incidental preliminaries to the sale; for many of the minor charges clerical labour is dispensed with by the sale of adhesive stamps. The Clearing House Committee adjusts disputes and matters of complaint between buyers and their brokers. Another function of the Clearing House is to record each month the total stocks of tea in London warehouses, and the landings and deliveries. These figures are published periodically in the daily and other papers.

The buyers of tea at public auction fall mainly into four groups: blenders who are the large wholesale distributors of tea which they themselves have blended, who know and cater for the requirements of retailers in all parts

of the country, the blends of tea needed in different districts varying with the hardness and softness of the water; dealers, who are wholesalers but not blenders, buying and selling the tea in the same condition; packet tea houses, who have in recent years acquired an immense percentage of the retail trade; and multiple shop grocers. Owing to the rapid growth of the two last-named groups, especially of the packet tea proprietors, wholesale tea-dealing no longer offers the opportunities of former years; a very small proportion of the retail grocers any longer taking the trouble to buy and blend their teas themselves, being content to act as distributors of much-advertised packet teas instead.

In the higher branches of tea-buying, estimates of value are affected by advance reports of crops in different districts, and by the knowledge of dates of shipment from the various ports.

A chronic source of annoyance to the tea trade is the variation in the duty. In the first twenty years of the present century the amount of the duty on a lb. of tea was changed no less than eight times; and as the duty is the same per lb. on every quality of tea, a larger proportion of the price of cheap tea is paid to the Government than in the case of more expensive grades, and proportionately less value is received in tea by the consumer.

The price of tea is further affected by the increased cost of tea-chests, hoops, and nails; by the variations in ocean freights, and in landing and storage charges; by the abundance or failure of the rice crops, the tea-growers being under contract to supply rice in large quantities to the coolies on the tea plantations; and by variations in the exchange value of the rupee; all these and other matters enter into the calculations by which business is transacted in Mincing Lane.

V IMPORT PROCEDURE AND DOCUMENTS

The importing merchant will receive information from abroad of shipments made, including the name of the vessel, and in due time he will get in touch with the shipowners, or shipbrokers who are agents, appointed to see to the clearing and unloading of the vessel, and perform other necessary trans-

actions, including the collection of freights, whilst vessels are in harbour.


In ordinary circumstances, after the usual formalities and payment of freight, the shipbroker will be able to give a "release" for the Bill of Lading, which is an order to the dock superintendent permitting the goods to be removed. The shipbroker or agent will pay all the dock dues, etc., for the importer. A copy of an order of this kind is given here.

| DELIVERY ORDER. | | |
|--|--|---|
| No. | LONDON, 10th November, 1926. | |
| To the Superintendent of the <i>East India Docks</i> , | | |
| PLEASE deliver to <i>G. Robinson's Motor Lorry</i> | | |
| the undermentioned Goods, entered by <i>Brown & Company</i> , | | |
| in the Ship " <i>Maid of Norway</i> ." | | |
| Captain <i>John Pratt</i> , from <i>Durban</i> . | | |
| Charges from date to be paid by bearer. | | |
| <div style="text-align: center;">MARK</div> <div style="text-align: center; padding-top: 20px;"><i>R.B.</i> <i>2672</i> <i>Y</i></div> | <div style="text-align: center;">No.</div> <div style="text-align: center; padding-top: 20px;"><i>1/14</i></div> | <div style="text-align: center; padding-top: 20px;"><i>14 bales Wool.</i></div> <div style="text-align: right; padding-top: 40px;"><i>Dawson & Smith,</i> <i>per G. Morris,</i> <i>Manager.</i></div> |

When a ship arrives in a British port from overseas, the master is required to "report" the ship to the collector of customs on a specified form. Amongst the particulars to be given are details of the cargo, including cargo to be re-shipped or to remain for export. This report is called a *Manifest*. When it is passed the vessel is given a special number, termed a *Rotation Number* (these numbers start from No. 1 on January 1st each year). The rotation number

is used on all the ship's documents, official Customs forms and delivery orders.

The cargo is then discharged by the dock company and the dutiable goods are cleared in due course and go either to bonded stores or ware-houses. The official form of authority is called an *Entry for Warehousing*. The non-dutiable goods are cleared in a form designated *Entry for Free Goods*. On later pages will be found examples of these two forms.

| ENTRY FOR WAREHOUSING. | | | | | |
|---|------------------|---|--|---------------------------|------------------------|
| No. 46 (Sale.) [Revised Edition.] _____ | | | | Collector's No. and Date. | |
| <div style="display: flex; align-items: center;"> <div style="text-align: center; margin-right: 20px;">  <p>H.M. CUSTOMS AND EXCISE</p> </div> <div> <p>Port, <i>London,</i> Dock or Station, <i>London Docks.</i> Importer's Name <i>Hallows & Company,</i> and Address <i>London Bridge</i> <i>Approach, S.E.</i></p> </div> </div> | | | | | |
| *Ship's Name. | | Date of Report. | | Rotation No. | |
| <i>"Orion"</i> | | <i>9/9/26</i> | | <i>Bordeaux</i> | |
| Marks and Nos. | No. of Packages. | Description of Goods in accordance with the Official Import List. | | Quantity Net | Value £ |
| <i>H. & Co. 1/30</i> | <i>30</i> | <i>Cases of Champagne, n. c. 30%</i> | | <i>50 gallons</i> | <i>£83 France</i> |
| <p>I enter the above Goods to be Warehoused in Surrey Dock (No. 4) Warehouse, and declare the above particulars to be true.</p> <p>Dated this <i>tenth</i> day of <i>September</i>, 1926 { (Signed) <i>Hallows & Co.,</i> <i>per G. Hallows,</i> Importer or his Agent.</p> | | | | | |

The documents which an importer receives from the shipper overseas are the Invoice, the Weight Note, the Bill of Lading, the Draft, and the Insurance Policy.

The Invoice describes the goods, and sets forth, in addition to their price in the country of origin, the various detailed charges which the shipper has incurred in forwarding them; in the case of imports on consignment the invoice is *pro forma* only.

The Weight Note, or other form of shipping advice, details the full particulars of the merchandise, and states by what vessel it is forwarded; a summary of this information is often cabled, to give the importer ample time to make sure of the date of arrival of the vessel, and the place of its discharge.

The Bill of Lading is the document of title, which the importer must present in order to obtain delivery of the goods shipped to him. Different shipping companies use their own forms, which differ somewhat in their clauses and conditions; but a bill of lading is the formal receipt given by the shipping company who carry the goods to the shipper who exports them, and contains full details of the packages, their weight and number, and their marks, with the name of the vessel and its master, and ports of sailing and arrival; it is forwarded in duplicate by different vessels to the importer, and timed to reach him before the merchandise arrives. If the bill of lading is made out "to order," it must be endorsed by both the consignor and the consignee.

Insurance Policy or Letter. London is the home and the world centre of marine insurance, and most British firms having

large import transactions prefer to insure their shipments themselves, either at Lloyd's or with a Marine Insurance Company in England. The usual method is for them to take out an open or floating policy, in which case, on receipt of an insurance letter from the shipper, they declare the amount of the particular risk; or else they may insure each shipment separately.

Customs Requirements

The next important set of import documents are those required by the Customs. For Customs purposes goods are either "free" or "duti-able." They are divided into the five main classes already mentioned, and these again are subdivided into a great number of groups and more particular descriptions. Full details of the classification, which has to be carefully followed and observed, are given in the official "Import and Export List," obtainable from H.M. Stationery Office.

A "Customs entry" has to be made of all imported goods, whether they are dutiable or free. This is required for purposes of revenue, for statistical record of the country's trade, and, since the passing of the Safeguarding of Industries Act, for the protection of key industries and the prevention of dumping. The importance of accurate description in accordance with the official classification is emphasised by the following clause appended to it: "Importers and exporters may be called upon to verify the particulars given, by the production of invoices, bills of lading, and other documents relating to the goods, and are liable to penalties if the particulars are inaccurate."

Customs Entries

Customs entry forms may be obtained from most commercial stationers, and differ for different purposes. They include the following:—

- Entry for Free Goods in transit on Through Bill of Lading.
- for Home Use ex-ship of Dutiable Goods.
- for Warehousing Dutiable Goods at port of entry.

for Warehousing Dutiable Goods elsewhere.

Further variations of the last three are needed for goods subject to *ad valorem* duty under the Key Industries Act, and for the warehousing of chemicals.

Every Customs entry must state the port, the dock or station, and the name of the importing firm; the ship's name, its master's name, the port of shipment, the marks, numbers, quantity, description, and value of the goods, the value being given c.i.f.; and must include a declaration, signed by the importer or his duly authorised agent, entering the goods as free or otherwise, and declaring the particulars given to be true. The entry forms for dutiable goods require a statement of the duty payable, and the warehousing entry states the particular bonded warehouse in which the goods are to be stored pending the payment of the duty.

Details for which there is not room on the face of any entry form may be endorsed on it, or the original invoice may be attached. If the importer has not received in time the necessary documents from abroad to complete his entry properly, he may use an alternative form called a "bill of sight," but in this case he must afterwards perfect his bill of sight by endorsing the particulars that were omitted.

When a Customs entry is completed, two, or in London three, copies of it are presented at the Custom House, and in the case of a free entry one copy is returned to the importer, stamped and initialled, as a permit for the removal of the goods. In the case of dutiable goods for prompt consumption, the amount of duty must be paid before the entry can be passed; this is called the prime entry; if later on, when the goods are inspected by the Customs officer, the duty is found to have been miscalculated, the difference is adjusted by a post entry or an over entry as required.

When the goods are to be warehoused the payment of duty may be postponed, provided they are stored in a "bonded warehouse" specially approved and under the supervision of the Customs. Bonded stores or warehouses are under the joint control of the Customs and the private owners; the latter enter into a bond as a guarantee that the stores shall be properly conducted. When there is a question of moving the goods, either by land or water, it is done by special transport firms known as bonded carmen and bonded lightermen, who have also to enter into a bond with the Customs.

Merchants may enter into a bond for one particular transaction, but may take out a *General Bond* for a sum to cover the whole of their transactions over a period. There are various other formalities applicable to special circumstances which we need not detail here. Certain goods may be sampled while they are in bond, but they may not be removed until the duty has been paid, and until a warrant has been signed by the Customs officer concerned.

Customs entry for these goods has to be made on a special Form, No. 107, 108, or 109, according as the goods are for immediate clearance or for warehouse at the port of entry or elsewhere; and declarations on entries are only accepted from certain specified officials of each firm; *e.g.* the clerk of an individual importer or of a private company must be authorised in writing, any officer of a limited company, except the managing director or the secretary, must be authorised under the company's seal, and shipping or forwarding agents must have written authority from the actual importers. Exemptions and drawbacks are allowed on goods produced within the British Empire, on goods of British origin which have been temporarily exported to undergo special processes, and on goods imported for re-export.

Customs Warrant

The Customs warrant is a permit issued by the Customs for the release from bond, and delivery to the importer, of dutiable goods which have been warehoused since their landing, on which the duty has since been paid. It is printed in three parts,

1. A detailed description of the goods, with their marks, numbers, and weight, the amount of duty paid on them, and who paid it.
2. An order to the warehouse keeper authorising him to deliver them up to the importer who bonded them, and giving the date of their receipt and their delivery.
3. A memorandum of the transaction, to be retained by the Customs collector.

Dock Documents

Besides the shipping documents, which are sent to the importer from overseas, and the Customs documents by means of which he satisfies the British Government, he also receives a landing account, and a dock warrant, from the Dock authority. An example of one issued by the Port of London is given on the previous page.

The Landing Account

Vessels arriving in port do not undertake to hold cargo on board till it is claimed by the consignee; they usually land it as soon as possible, and transfer its custody to the dock company or to some firm of wharfingers. Goods are then weighed and examined, and a landing account is sent to the importer describing them, and specifically mentioning any signs of damage or leakage that they show; if no such damage is noted, the landing account is a "clean" one. The warehouse keeper's certificate of the state in which packages were received from the shipping company is important in view of possible claims afterwards, as *prima facie* evidence as

to whether damage occurred on the voyage or in the warehouse.

At the same time the goods are inspected by the Customs officer, and either declared free, in which case they are left at the disposal of the owner, or else declared dutiable, when all further handling of them till the duties have been paid is closely watched and supervised by the inspector of Customs.

The Dock Warrant

This has no connection with the Customs warrant described earlier, but is a document issued by the Dock company to the importer at the latter's request only, taking the place of an ordinary receipt for goods temporarily warehoused. It contains the same particulars as the landing account, but is headed "warrant," and states that the goods are deliverable to the importer or to his assigns by endorsement.

This document therefore becomes a negotiable instrument, as the bill of lading was upon the voyage, and conveys title to the goods; when once a warrant has been issued, they will only be delivered to its holder; a warrant may be used as security against a loan, or may be sold, involving the sale of the goods it represents. The holder of a warrant may also have the goods divided in the warehouse for sale in smaller parcels, and separate warrants issued in favour of the purchasers; in this case the original warrant must be deposited and the quantity delivered must be written off it.

Sampling

In several important import trades, of which the tea trade is an instance, goods are sold almost entirely on sample. Special warehouses are assigned at the docks for these goods, and expert employees of the dock company may draw samples and forward them at the owner's request.

Certificates of Origin

One other document is sometimes needed for imported goods, and, if required, should reach the importer with the invoice from the shipper overseas, and be produced when passing his entry through the Customs. This is a certificate issued by a British Consul, Chamber of Commerce, or other authorised body, in the country from which the goods are shipped, testifying that they are *bond fide* products of that country. Certificates of Origin are needed in the case of—

1. Imports from British possessions and Protectorates on which Imperial preference is claimed.
2. Certain dutiable goods imported from the Isle of Man and from the Channel Islands.
3. Sugar intended for re-export.
4. Port wine, which has to be certified as such by the Portuguese authorities.
5. Rum, unless it comes direct from a cane sugar-growing country.
6. Goods from certain countries under Part 2 of the Safeguarding of Industries Act.

The Port of London

The procedure we have detailed may vary in ports outside the Port of London, whose usage we have followed as it is the most important. At one time all the London docks were in the hands of private companies. By the Port of London Act, 1908, all these privately owned docks passed into the hands of the Port of London Authority. The Customs regulations applicable to London were framed to meet the special needs and exigencies of London Port, where a considerable part of the trade is a *transit* trade. The functions of the Waterman's Company in respect of licensing all lightermen navigating the river are now also in the hands of the Port of London Authority.

Various shipping terms not included in this chapter, such as C.I.F., F.O.B., etc., are explained in the chapter on the Export Trade.

BRITAIN'S OVERSEAS TRADE

Imports and Exports Compared

Here we give, for the year 1926 and in a form suitable for ready reference, the totals of Great Britain's imports and exports in the various classes of goods. The value of the imports is the c.i.f. value; the value of the exports is the f.o.b. value. The amount of the exports, therefore, is less than it should be, in order to compare it with the value of the imports by the amount charged for freight and insurance. The imports are the net, not the gross value of the imports for the year, i.e. the value of the re-exports has been deducted.

| | Imports. | Exports. |
|--|--------------|-------------|
| I. <i>Food, Drink and Tobacco.</i> | £ | £ |
| Grain and Flour | 98,025,000 | 5,792,000 |
| Feeding Stuffs for Animals | 6,623,000 | 2,393,000 |
| Meat | 110,424,000 | 1,641,000 |
| Animals (living) for Food | 16,982,000 | 147,000 |
| Other Food and Drink, Non-dutiable | 158,597,000 | 32,443,000 |
| Other Food and Drink, Dutiable | 96,590,000 | |
| Tobacco | 16,820,000 | 8,050,000 |
| | £504,061,000 | £50,466,000 |
| II. <i>Raw Materials and Articles Mainly Manufactured.</i> | | |
| Coal | 42,981,000 | 19,138,000 |
| Other Non-Metallic Mining and Quarry Products and the like | 5,076,000 | 1,924,000 |
| Iron Ore and Scrap | 2,786,000 | 286,000 |
| Non-Ferrous Metalliferous Ores and Scrap | 14,811,000 | 1,578,000 |
| Wood and Timber | 38,587,000 | 627,000 |
| Raw Cotton and Cotton Waste | 75,768,000 | 1,041,000 |
| Wool, Raw and Waste, and Woollen Rags | 37,881,000 | 8,454,000 |
| Silk, Raw, Knubs and Noils | 1,980,000 | 25,000 |
| Other Textile Materials | 11,692,000 | 292,000 |
| Oil Seeds and Nuts, Oils, Fats, Resins and Gums | 42,883,000 | 6,221,000 |
| Hides and Skins, Undressed | 6,788,000 | 2,402,000 |
| Paper-making Materials | 11,899,000 | 1,525,000 |
| Rubber | 17,216,000 | 307,000 |
| Miscellaneous Raw Materials and Articles Mainly Unmanufactured | 8,556,000 | 3,331,000 |
| | £318,904,000 | £47,151,000 |

| | Imports. | Exports. |
|---|-----------------------|---------------------|
| | £ | £ |
| III. Articles Wholly or Mainly Manufactured. | | |
| Coke and Manufactured Fuel | 2,510,000 | 1,364,000 |
| Earthenware, Glass and Abrasives | 11,298,000 | 11,925,000 |
| Iron and Steel and Manufactures thereof | 29,251,000 | 55,077,000 |
| Non-Ferrous Metals and Manufactures thereof | 33,443,000 | 19,484,000 |
| Cutlery, Hardware, Implements and Instruments | 5,284,000 | 8,801,000 |
| Electrical Goods and Apparatus | 3,602,000 | 12,189,000 |
| Machinery | 11,388,000 | 45,528,000 |
| Manufactures of Wood and Timber | 6,260,000 | 2,123,000 |
| Cotton Yarns and Manufactures | 7,878,000 | 154,343,000 |
| Woolen and Worsted Yarns and Manufactures | 13,144,000 | 51,415,000 |
| Silk and Silk Manufactures | 15,256,000 | 1,957,000 |
| Manufactures of other Textile Materials | 12,720,000 | 26,744,000 |
| Apparel | 15,999,000 | 27,320,000 |
| Chemicals, Drugs, Dyes and Colours | 14,459,000 | 21,638,000 |
| Oils, Fats and Resins, Manufactured | 41,718,000 | 9,448,000 |
| Leather and Manufactures thereof | 12,163,000 | 6,682,000 |
| Paper and Cardboard | 15,512,000 | 9,797,000 |
| Vehicles (including locomotives, ships and aircraft) | 7,095,000 | 30,583,000 |
| Rubber Manufactures | 6,834,000 | 7,946,000 |
| Miscellaneous Articles, Wholly or Mainly Manufactured | 23,946,000 | 33,815,000 |
| | £289,760,000 | £538,179,000 |
| IV. Miscellaneous. | | |
| Animals not for Food | 2,021,000 | 1,717,000 |
| Parcel Post | 2,552,000 | 14,380,000 |
| Total | £1,117,298,000 | £651,893,000 |

